UNDERSTANDING THE STOCK MARKET

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A Handbook for the Investor

BY ALLISTON CRAGG

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INTRODUCTION

During the past year there has occurred an unprecedented increase of public interest in the listed stock market. Most impressive and unquestionable evidence of this is found in such items on the financial pages of the daily news papers as: New York Exchange—Stocks today (November 20, 1928), 6,503,230; Year ago, 2,492,840.

Such an enormous increase during one year in the number of shares sold in the nation's greatest stock market in a single day, means a corresponding increase in the number of people speculating and investing in stocks. The trading of the public has now become a tremendously important factor in the market. For the most part this new and potentially powerful element is not yet very familiar with the security market, and thousands are eager for more detailed knowledge of its methods and operations.

A sound working knowledge of the stock market is the surest protection against losses through ill advised investment or speculation. Nothing

makes for greater uncertainty in the market than a large public element possessing little knowledge of its operation and the conditions affecting it. On the other hand, a growing public investing intelligently in established stocks, is the greatest assurance of a strong, continuous market, free of sudden and disastrous fluctuations.

A concise, easily understood, but accurate source of information is desired, that will acquaint the new entrants with the inner working of the market, and familiarize them with the meanings of the technical terms and expressions used by financial writers in their reports of market conditions and activities. It is hoped that this book may provide such a source of information.

The purpose then, is to present information concerning the organization, operation and methods of the stock market in a manner so direct and clear that the layman can readily understand; but with such completeness and technical accuracy as to be of value to the experienced trader and investor. To conform with this aim there must be nothing long-drawn-out or laborious, and the information must be made available at a minimum expense of time and effort.

With this in mind the book has been given the

form of a series of subjects each complete in itself, but making with the rest a connected whole. Each section, in from 500 to 600 words, treats a major subject comprehensively. This enables the average reader to cover any subject of interest in two or three minutes time.

An unusually complete index and glossary has been arranged, so that any subject or the explanation of any technical term or expression can be easily and quickly found. For simplicity and to avoid unnecessary repetition, the index and glossary have been combined, the glossary being indicated by the use of italics. An elaborate and detailed list of contents has been avoided. Instead two simple and convenient lists are given. One list contains the headings, arranged numerically by page in the order of appearance. The other list contains the subjects discussed under each heading, arranged alphabetically for immediate location of the subject.

It is sincerely hoped that the information collected in this book may be of assistance to those who desire to understand the stock market, and that it may help to bring about a wise course of conduct in this big and very important new field of public interest. Special acknowledgment is due members of the financial staff of the New

York American for editing the original manuscript. Particularly should appreciation be expressed for valuable suggestions by Mr. Lee Ettelson, Managing Editor of the New York American; and Mr. Merryle Stanley Rukeyser, whose daily articles upon financial subjects are nationally known.

UNDERSTANDING THE STOCK MARKET

A BIT OF WALL STREET HISTORY

IT all began nearly 140 years ago under a spreading buttonwood tree in a shady village street. The locality is now called Wall Street, and if, as sometimes meanly hinted by a few of the disappointed ones, there remains any shadiness about it, that graceful old buttonwood has no responsibility.

For some time previous to this beginning the foot of Broad Street had been used as a trading post and market. Grain and slaves were traded and sold there and cattle and furniture auctioned. With the early growth of banking institutions stock came into this market. It soon became evident that the mingling of bank stock and live stock was an imperfect arrangement. A group of men gradually formed who dealt only in stocks, and these became accustomed to meeting under the certain buttonwood tree just mentioned. The selection of this particular kind of tree, popularly known also as sycamore, was no doubt due to the fact that it is one of the

largest and finest of eastern North American trees, and its far flung branches would shelter a considerable gathering from bad weather.

In 1792 this group of brokers made an agreement among themselves to co-operate in buying and selling, and to regulate the charge for their services. It was not until 25 years later, however, that they decided to get a room and call themselves the New York Stock and Exchange Board. For a dozen years, then, this board of brokers conducted a small business in bank, insurance and canal shares. At one time they had their headquarters in a hay loft.

From 1829, when the first American locomotive coughed its way over wooden runways, until 1860, the country witnessed a period of unprecedentedly rapid economic development. Rails spread rapidly throughout the nation, new territory was opened up and endless resources discovered and developed. This all meant untold new wealth, and the consequent huge increase of the business of the Stock and Exchange Board. At the beginning of this period the exchange of 8,000 or 9,000 shares in a day was regarded as heavy business. Toward its close, on one record breaking day in 1857, more than 70,000 shares changed hands.

During and following the Civil War there was a period of development in the financial growth of the nation that greatly favored speculation. Paper money with a gold redemption value was established, and the fluctuation between the value of this paper and actual gold caused such wild speculation that a separate exchange was formed in 1862 for this class of trading.

The excitement became so intense that speculators overflowed the quarters in the financial district and carried on their operations in the corridors and reading room of the old Fifth Avenue Hotel. During this time, too, the various kinds of exchanges that had grown up in competition consolidated and in 1865 erected their own building on the site of the present Stock Exchange at Broad and Wall Streets.

During this period also, in 1867, the ticker was adopted by the stock exchange, and it commenced to use the Atlantic Cable, thus stimulating national and international exchange activity. In 1878 the first telephones were installed on the Exchange floor, greatly speeding up transactions, and providing the last element necessary for its wonderfully efficient present day operation.

STOCK EXCHANGES

THE New York Stock Exchange developed in less than a century into an institution of national and international importance. By 1880, housed in its own impressive building at the corner of Broad and Wall Streets, it had adopted the three great instruments that make its modern operation possible. The telegraph and the trans-Atlantic cable, the ticker and the telephone were all in use then, though of course they were very crude at that time.

Then the nation entered the era of great industrial corporate expansion. Newer and quicker methods for handling the stock market business were constantly devised. The Stock Exchange Clearing House was organized in 1892, and at about the same time was adopted the present method of transacting business at posts or stations on the Exchange floor to which special groups of stock were assigned. Arbitrage between the great Exchanges of the world facili-

tated foreign business, and had its influence on international relationships.

STANDARDS DEVELOP

Later years have witnessed great development of the ethical and business standards in the brokerage of stocks and bonds. Bucket shops have been eliminated, and such factors as the stock clearing corporation and steadily developed telegraphic business have expedited operations and expanded the market.

A network of private wires now connects the New York Exchange with the whole nation. There are very few places in the country where an easy drive will not reach a member office where the customer can buy and sell stocks listed on the Exchange as easily and quickly as though he were in New York City. And now the New York Stock Exchange is the world's greatest securities market. On November 23, 1928, nearly 7,000,000 shares of stock changed hands on its floor in a single five-hour session. Notwithstanding the modern refinement and speeding up of all operations and devices connected with the Exchange the ticker was two and a half hours behind transactions on the floor.

THE NEW YORK CURB MARKET

The New York Curb Market was for years an unorganized market carrying on its operations in the street, from which it got the name "Curb." In 1921 the New York Curb Market Association entered its own handsome quarters and conducts business along lines patterned in general after the New York Stock Exchange. Its listing requirements, however, are less exacting than those of the big Exchange, and it deals only in stocks not listed on the New York Stock Exchange. Some of the Curb stocks are of a very high order, and could be listed with the big Exchange if desired. Such stocks are constantly being graduated from the Curb to the Stock Exchange list, and then are no longer dealt in on the former exchange.

Besides these great exchanges in New York City, there are other exchanges in the principal cities of the United States. These exchanges are comparatively small, and operate largely in the securities of local companies. Stock exchanges are the common meeting places for those who want to buy or sell stocks. In general

a stock exchange will be established wherever corporate interests and investors exist. The fundamental work of an exchange is to simplify the purchase and sale of securities.

NOTHING MYSTERIOUS ABOUT THE STOCK MARKET

WALL STREET and the stock market have always been regarded by the public in general as identical, and as very mysterious and intricate institutions. Until the last few years even the thought of buying stock on the market did not occur to the average person who knew little or nothing of the steps necessary for doing so. The highly technical appearance and terminology of the conventional financial page and other sources of public information upon the subject tended to create the feeling that it was all too complicated for the everyday person.

The last few years, however, have witnessed a great change in this attitude. Perhaps the main reason for this is the big educational campaign that Uncle Sam conducted when marketing the Liberty Bonds. The public is now in the stock market, and is very rapidly becoming a factor of the greatest importance there. Al-

most daily I meet men and women, at least as well informed as the average, who ask: "How do you go about buying stock?"

EASE OF TRADING

When the many, who could afford to buy one or more shares of stock and who as yet are uninformed, learn that listed stocks can be purchased about as easily as ice cream sodas, and with little more mystery than just that—Wall Street will begin to see a real public market. It is greatly to be hoped that the public will rapidly acquire a knowledge of securities and transactions in stock that will enable it to use the market wisely. The buying and selling of stocks is a very simple matter, but to buy and sell wisely is distinctly something else again.

The sensational stories of Wall Street, of both fact and fancy, given such wide circulation from time to time, were always linked in the mind of the general public with the Stock Exchange, whether or not they related to its activities directly. These stories, combined with tales of strange doings on the Stock Exchange, made the whole thing seem very dark and tricky.

This conclusion was not without some justi-

fication, as witness the operations of the "bucket shops" in the old days before their elimination by the Exchange. The extensive participation in the present market by the public, is the surest indication that as education in the use and purpose and performance of the Stock Exchange proceeds, the old suspicions, criticisms and misunderstandings are going overboard.

The enormous increase of activity in the stock market on the part of the general public is unmistakably evidenced by the huge volume of "odd lot" business now being transacted. Trading on the New York Stock Exchange is done in units of 100 shares. This practice greatly simplifies and speeds up the whole operation.

ODD LOT ORDERS

However, to accommodate persons desiring to trade in less than 100 shares, the system of trading in odd lots has grown up. Odd lot dealers will purchase from one to 99 shares of stock and later, combining the certificates, sell them on the Exchange in 100 share lots. Or they will buy 100 share lots on the floor of the Exchange and split them up to accommodate customers who wish to purchase less than 100 shares.

Naturally the odd lot orders come for the

most part from individuals whose trading is limited to small amounts. The volume of this business is a sure index of the extent to which the general public is in the market, and of the extent to which, for that part of the public at least, the stock market is no longer an unprobed mystery.

EASE WITH WHICH STOCK IS BOUGHT AND SOLD

THE first question arising in the mind of the person who is uninformed is: "How do you buy listed stocks?" The second is: "Can you sell them whenever you want to?"

The organization and service of the modern stock exchange and the speed with which it operates through the use of telegraph, telephone and ticker, make the purchase of stock, from one share up, cash or credit, any place in the country, almost as simple as getting a tube of tooth paste from the neighborhood drug store. We are speaking now of the New York Stock Exchange with its list of most of the more important nationally known corporate securities. The other exchanges, in their limited fields, extend service closely patterned after that of the nation's big exchange.

After a decision has been made as to what stock is desired, all that is necessary is to call at any broker's office operating under a New

York Stock Exchange membership; give the order, and deposit payment for the stock if credit has not been established. The broker, upon acceptance of the order, will immediately transmit it by telephone or telegraph or both (usually private lines) to the floor of the Exchange. If the order originates outside of New York City, it is handled through a representative located there.

BROKER'S FUNCTION

The broker attending to the order on the floor of the Exchange closes the transaction at the first offer of that particular stock made after he receives the order slip and the originating office and customer are notified. In a few minutes, or perhaps seconds, the buyer can read on the tape as it issues from the ticker in his local broker's office, a record of the deal—the abbreviation for the stock, the price, and, if 100 shares or more, the amount or volume of the sale.

To sell listed stocks this operation is simply reversed, the floor broker selling instead of buying the stock, and the deal is put through just as easily and quickly. The local broker charges a commission for his services based upon the

price of the stock and the number of shares involved. The commission varies from 7½¢ per share for stocks selling at less than $10 per share, to 25¢ per share for stocks selling at $200, with a minimum charge of $1.00. There is a small Federal transfer tax and in some states a state tax also. A commission is charged for every transaction, both buying and selling.

BUYING AND SELLING

To those who are unfamiliar with the stock market the question will occur: "But how can you buy and sell the stock that you are interested in at the time you want to?" The answer to this will be found in any large public produce market. Anything desired in the way of provisions can be bought or sold in such a market for the simple reason that those with produce to sell, and the persons who desire to buy, gather from miles around at that point. In the same manner, but in a far bigger way, the stock exchange serves those who desire to invest in securities or sell them.

In the New York Stock Exchange millions of shares of the listed stocks are bought and sold daily. The orders to buy or sell come from all over the United States and the world and

apply to virtually the whole list of stocks. In such an enormous, continuous movement of stocks an order can always be carried out promptly.

HOW AN OUT-OF-TOWN ORDER IS EXECUTED

WHEN Mr. N. O. B. Hill of San Francisco gives his broker, a member of the New York Stock Exchange, an order for 100 shares of U. S. Steel he first fills out the buying order form. This is handed to the order clerk who records the order and has it telegraphed at once, over a private line, to the New York representative of the firm.

The wire order clerk in the New York brokerage house immediately transmits the order over a private telephone line to the floor of the New York Stock Exchange. Here it is received in one of the many telephone booths maintained by the different members for their own use. The telephone clerk writes the order on a slip, at the same time pressing the button that operates the numbers on a large call board that is visible from all parts of the floor. This signals the floor representative of the New York firm to the telephone booth.

With the order in his hand this broker is obliged to fill it as quickly and at as low a price as possible, becoming Mr. Hill's personal agent on the floor. He hurries to the post on the floor to which U. S. Steel has been assigned for trading purposes, and as soon as the next offer of this stock is made, conditions being satisfactory, he says: "Take it."

TRANSACTION CLOSED

This closes the transaction. No written agreement or memoranda is exchanged between the offering and the taking broker. They are bound by the rules of the Exchange to carry such transactions out to the letter. In the millions of shares that change hands in this manner daily an error rarely occurs.

As soon as he has said: "Take it," the broker sends a memo of the purchase to the telephone clerk who calls back to his office. The San Francisco office is wired immediately, and in turn notifies Mr. Hill.

The contract that the floor broker closed with "Take it" obliges the New York representative to receive and pay for, not later than 2:15 P. M. on the full business day next following, a certificate for the shares ordered. Mr. Hill's broker

sends him notification that they have bought: "for your account and risk in accordance with the rules of the New York Stock Exchange, 100 shares of U. S. Steel," at a stipulated price.

RECORDED ON THE TICKER

As soon as the purchase is made on the floor one of the official reporters, employed by the Exchange and stationed at the post where the sale was made, hurries away and places a memo of the sale before a ticker operator on the floor. From this operator the quotation is picked up by the New York Quotation Company which operates ticker stations throughout lower Manhattan Island. The Western Union Telegraph Company also picks up the quotation and transmits it on its own tickers which are located all over the United States.

Mr. N. O. B. Hill, watching the tape in his broker's office in San Francisco, in the course of a few minutes from the time of placing his order, reads a record of its execution. A complete transaction, originating in San Francisco, has actually been carried out in one minute. This unites San Francisco and New York City in the matter of trading on the Stock Exchange.

BUYING ON MARGIN

IF a man is interested in the purchase of a piece of real estate that can be bought for \$4,000 cash, and he has only \$1,000 available for the purpose, he often finances the deal by borrowing \$3,000 to add to his \$1,000 so that he can pay for the lot. He then, through a first mortgage lien against the property, puts up the lot as security for the borrowed \$3,000. The \$1,000 would represent his "margin" or equity in the lot.

In the same manner stocks can be bought by putting up part of the full market value in cash, borrowing the balance required from the broker, and depositing the stock with him as security for the loan.

THE BROKER'S LOAN

As an example, suppose that it is desired to buy 100 shares of a stock that is selling at \$100. The amount of margin required depends upon the price and character of the stock to be bought

and relations established with the broker. In this case say that a twenty-point margin is asked, that is $20 per share. Two thousand dollars is deposited with the broker, and his representative on the floor of the exchange buys 100 shares. These shares must be paid for at the end of the full day next following the transaction.

To obtain the additional $8,000 required the broker borrows the amount from a bank or money broker, and deposits the stock certificates as collateral for the loan. A bank will loan up to about 80% of the market value of a high grade stock. If the broker cannot borrow all of the $8,000 from the bank he must make up the difference himself.

CALLING FOR MORE MARGIN

If the stock then advances ten points ($10) per share and the customer so desires he can order it sold. Out of the $11,000 brought by the sale the broker returns the $8,000 to the bank, deducts his commission and the transfer tax, and the interest on the $8,000 that he advanced for the client. The remainder is turned over to the customer. On the other hand if the stock should drop five points, the broker will

call for additional margin in the amount of $500 to keep his security intact.

If the customer cannot advance the additional margin, the broker will sell the stock at what it will bring on the market, repay the bank and return what is left of the customer's money, which in this case would be $2,000 less the $500 and charges. The broker has no choice in the matter as he has borrowed the money from the bank subject to "call," and as soon as the security for the loan held by the bank depreciates in value, it may exercise its right to call in the loan unless additional security or cash is deposited.

It is apparent that unless the buyer has reserve funds with which to meet all possible added marginal requirements, he should buy only such stock as he can pay for outright. Otherwise he is simply gambling that the stock will advance, and should it go the other way is bound to lose part or all of his money. When the stock is purchased outright the certificate of ownership is delivered the same day, and the money is always secured to the extent of the market value of the stock, and in any case it can always be held for return to the purchase price or better.

HOW THE SMALL ORDER IS HANDLED

ONE share of stock can be purchased on the New York Stock Exchange as conveniently as 1,000, and the customer who may be limited to the purchase of but one or a few shares receives the same service as the millionaire who deals in thousands. Such orders are handled for ordinary brokers on the floor of the Exchange by "odd lot" dealers. These brokers devote themselves exclusively to the needs of customers buying less than 100 shares of stock, which is the Stock Exchange unit of trading.

If Mr. Addison Sims, of Seattle, recalling that he has $200 or $300 to spare in the bank, decides that he would like to invest in a couple shares of a stock listed on the New York Exchange that looks good to him, he simply drops around to the office of a Seattle broker and places his order. If he has already established credit with the broker that is all that is neces-

sary. If not he deposits the quoted price of the stock.

PRELIMINARY STEPS

The first steps in carrying out this order are the same as apply to an order for 100 shares or more. It is sent over a private wire to the New York representative of the Seattle brokerage house, and telephoned to the floor of the Exchange. At this point, however, the telephone clerk, instead of signaling the regular broker on the call board, writes the name of an odd lot broker on the back of the order and calls a tube attendant. A station at the end of the telephone stalls is connected by pneumatic tubes with every post on the floor. The attendant places the slip in a container and sends it through the tube to the proper post for that particular stock. Another attendant at the post hands the order to the specified odd lot broker, who completes the purchase.

Now the odd lot broker must be paid for his services and he attends to this by charging either one-eighth or one-quarter of a point per share of stock. This depends upon the character of the stock and is known in advance. The odd lot dealer collects this amount by selling the stock an eighth or a quarter point away from the

next quotation on the stock after he has the order in hand.

For example, if the next quotation after he has received the order is 98, and the deal is in one-eighth stock, he sells Mr. Sims his shares at 98⅛. If it had been a sale instead of a purchase the broker would have sold at 98 and paid 97⅞. The order filled at 98⅛ is immediately communicated to the telephone clerk and the deal then completed in the usual way. Mr. Addison Sims, if he chooses, can watch the ticker in Seattle and see that he has not been overcharged.

VOLUME OF ODD LOT TRADING

The full importance and significance of this odd lot business will be better appreciated when it is realized that it now constitutes about one-third of the recorded trading on the New York Stock Exchange. There are three large brokerage houses in New York City handling odd lot business exclusively, and others handling odd lots in addition to the regular business. One of the exclusive houses has 39 dealers on the floor, whose memberships at prices that have been paid for Stock Exchange seats, are worth about $25,000,000.

THE SHORT SALE

EVERYBODY knows that the "Bulls" in Wall Street slang, are the traders who profit from a rise in the price of stocks which they hold, whereas the "Bears" gain when stock prices fall.

The Stock Exchange is said to be enjoying a Bull Market when quotations are going up, and a Bear Market when prices are headed downward—though the latter situation is not one of enjoyment for most people in the market at the time.

PROFIT ON DECLINE

To most people, however, the manner in which the Bears make money when prices are going down is not very clear. This is accomplished by a simple operation called the short sale, or selling short, so named because the seller does not own, or in other words is short of, the stock that he is selling.

The principle involved in the short sale is

common throughout the business world, where it is called taking orders for future delivery, or accepting contracts for future fulfillment. For example, a furniture manufacturer may receive an order to furnish the seats for a new theater. He names the price at which the seats will be supplied and secures the order months in advance of the delivery date.

He is actually selling something that he does not own at the time. He has the facilities for production, and it is his belief that he can obtain the raw material from which the seats are made, and the labor that produces them, at a cost sufficiently below the agreed price to give his company a profit. If he is short of either material or labor, and the market price for one or both of these essential factors in his operation goes up, he may have to fill the order at a loss.

STOCK BORROWED FOR DELIVERY

In the same manner an engineering corporation submits bids and accepts award of contract to build a bridge or tunnel before the materials required for construction are on hand. It is estimated that materials and labor will be secured

at a figure that will leave a good margin of profit between the bid and the actual cost. The steel mills fix a price and accept the order of the engineering corporation far in advance of delivery. The farmer may sell out his crop before it is harvested, and the same thing is done throughout the range of business and industry. Were it not for this selling short, selling in advance of actual possession of the thing sold, the speed with which modern business is transacted, and the precision and smoothness with which delivery and completion dates are met, would be impossible.

The short seller in the stock market simply sells stock that he does not at the moment own, but which he expects to be able to acquire later at a price below that at which he sold. The way in which this is accomplished is simple enough. The stock must be delivered to the buyer, if sold in the regular way, not later than the next business day. To make this delivery the short seller borrows the stock through his broker. He then returns this stock when he buys the necessary shares, or "covers" on the market. There is plenty of time in which to do this as the broker does not require immediate replacement.

If he buys the stock at a figure below that at which he sold, he has a profit, but, if the market price of the stock has in the meantime gone up, he takes a loss.

TYPICAL SHORT SALE ON MARGIN

LET us assume that in the opinion of a "bearish" customer a certain stock is due for some reason to go down. He orders his broker, with whom he has on deposit say $1,000 for margin, to sell 100 shares of this stock, the quotation at the time being 86.

The broker makes the sale, and then to obtain the stock which he must deliver to the buyer the next day, he borrows 100 shares of the stock in question, usually from a group, "the loan crowd," who specialize in making such loans. To assure the lender of the replacement of the stock, the broker deposits with the lender its market price or $8,600. The return of an equal number of shares of the same stock is, of course, all that is necessary since shares of the same stock are like dollar bills—one is as good as another. Such loans are on a "call" basis and either broker or lender can terminate the loan by request.

MARGIN REQUIRED

This particular stock advances to 90 in the next few days. Now the stock is actually still

owned by the lender since he in effect merely borrowed the current price of the stock from the broker, to be returned when the broker replaced the stock. All advances in value of the stock, and dividends in the interim, then accrue to the lender. With the advance of the stock to 90 the lender is entitled to $400 additional, as it is a condition of the loan that the borrower must keep with the lender the market price of the securities borrowed. To obtain this $400 the broker calls upon his customer for an increase of margin in the same amount.

The foregoing conditions having been met, the stock during the next few days drops back to 83. The broker could now call upon the lender to return $700, the excess above the market price, and the customer could draw upon his broker for $400, the amount over the 10-point margin agreed upon. However, when the stock drops to 83 the customer orders the transaction closed.

CLOSING DEAL

The broker closes the deal by buying 100 shares of the stock in the open market. When he receives the certificate the following day, he pays the $8,300. The shares are then turned

over to the lender who returns to the broker his original deposit, usually with interest at prevailing rates, which interest is not shared by the customer.

The difference between the $8,600 at which the customer sold the stock and the $8,300 purchase price, minus commission and transfer tax, represents the customer's profit on his short sale. Obviously, had the customer closed the transaction when the stock was at 90, he would have sustained a loss represented by the difference between $8,600, his selling price, and $9,000, the buying price, plus the broker's commission and taxes.

HOW THE SHORT SALE BENEFITS THE STOCK MARKET

THE practice of short selling is based upon the opinion of those in the market who believe that certain securities are selling at a price that is not likely to be maintained. Such a view obviously clashes with the judgment of others, usually in the great majority, that prices will increase. The first group plainly tends to restrain the latter from excessive enthusiasm and consequent unlimited boosting of prices. On the other hand, when prices have been forced to unwarranted heights and the inevitable reaction comes, the short sellers act as a brake upon the slumping values and prevent panicky low marks. They must deliver the stocks that they have sold and have to go into the market and buy stocks to do so, though everybody else may be unloading.

STABILIZES MARKET

In a bull market, when everybody else may be buying, the short trader is selling. In a bear

market where everyone is trying to sell, the shorts are buying to cover their sales. The short sale thus acts as a great stabilizer of security prices, and is of great economic benefit.

There are other very important economic functions of the short sale. Were it not for the short sale it would be impossible for the odd lot dealers to extend a service that enables the buyer of less than 100 share lots to have his small order filled as quickly and easily as that of the biggest operator. The odd lot dealer clearly could not carry on hand a supply of all the stocks that he may be called upon to buy in small lots.

HELPS ODD LOT DEALER

In a very active market such a supply of the more popular speculative securities is sometimes maintained. But as a rule the odd lot dealer fills buying orders by selling short with an eighth or quarter point added to the market price, and taking a chance on being able to buy in at a lower price when he has accumulated the small orders to make a full lot of 100 shares. The odd lot transactions now constitute about a third of the recorded volume of trading on the Stock Exchange. The execution of this huge

volume of small lot business is only possible through the short sale.

Owners of securities, who may be at some distance from the point at which they are deposited, or who may not yet have received delivery of stocks that they own, find the short sale a great convenience should they desire to sell at prevailing prices. The short sale is a big factor in securing a continuous market with all its advantages, through facilitating the operations of the odd lot dealers and specialists, and in this way greatly increasing public interest and activity in the securities market.

RELATION OF BROKER AND CUSTOMER IN SHORT SALE

WHEN a customer gives his order to sell securities short, the broker must borrow the securities in accordance with the rules and customs of the exchange of which he is a member. The broker is authorized to secure the loan of the stock from another broker, or brokers, or any other persons as he chooses. Upon receiving the security from the lender he must make delivery to the buyer in conformity with the rules.

Upon delivering the securities to the buyer, the broker must receive their purchase price, credit the customer with this amount on his books, and then deposit the money with the lender as security for the borrowed stock. The customer is charged the usual commission, any transfer taxes collectible, and all legitimate expenses that may be incurred by the broker.

BORROWING SECURITIES

The broker is permitted by usage to borrow

the securities from another customer for whom he may be carrying them, acting in this case as the agent of such customer. However, he cannot use his own securities for delivery on a customer's short sale. This would be in violation of the legal principle that "the agent cannot deal as a principal with his own principal."

The broker is governed by the law of agency, and must exercise due care and act in good faith on behalf of his customer at all times. At the broker's option the loan of the stock may be terminated after a reasonable time upon proper notice to the customer. He also has authority to pay any premium that is necessary to maintain the loan, and to substitute one lender for another, as the loan is callable at any time by either borrower or lender.

When a loan of securities is made the borrowing broker and the lender treat each other as principals. The borrower agrees not only to return the securities, but also to pay the lender all interest and dividends that may accrue to them during the loan. The assumption of such obligations by the broker, and the fact that price fluctuations may make it necessary to increase the amount deposited with the lender, justify

the broker in demanding a margin from the customer as security.

USE OF MARGIN

Out of this margin the broker takes his commission, and is permitted to pay all legitimate expenses on behalf of the customer. Should the price of the security rise the lender will call for additional deposit, as it is agreed that the market price of the security shall be maintained with him at all times. The broker will then call upon the customer for this additional amount as the customer has agreed to maintain an adequate margin. If the customer fails to maintain such margin, the broker can buy the stock in the open market, return it to the lender and close the transaction. However, should the market price decline, the broker is entitled to a refund from the lender, and the customer to a decrease of margin by the amount of the decline.

The customer may at any time supply the broker with the necessary securities, or order him to buy the securities and close the deal. The broker then replaces the stock borrowed from the lender and his deposit is returned. If the shares to cover the short sale were purchased at

a lower price than that at which the stock was sold, the customer profits by the difference in price, less commissions and taxes. But if it was necessary to pay more for the stock the customer loses the difference plus commissions and taxes.

THE MUCH MISUNDERSTOOD SHORT SALE

NO operation in the stock market meets with so much misunderstanding and prejudice as the short sale. The operation itself, though generally regarded as very mysterious, is simple. It consists merely of delivering to the buyer of a stock that one has sold, shares that have been borrowed for the purpose, and then returning the borrowed shares at a later date when it is hoped that they can be purchased in the market at a lower price. In this simple operation, however, two ideas are involved that account for the unpopularity and prejudice.

In the first place, the deal entails the sale of stock that is not at the time owned by the seller; and, in the second, profit depends upon declining prices since the seller, to come out ahead, must eventually buy the stock for less than he sold it. It is popularly regarded as wrong to sell something that one does not own and a general prejudice exists against a transaction that relies

upon lowered prices for a profit. The first objection is due to a misconception of the short sale. The second results from the mistaken idea that the short seller is responsible for the lowered price. The prejudice will probably continue so long as the optimistic view has more supporters than the pessimistic, and cheerful confidence is more popular than cautious consideration.

PRINCIPLES

The fact is that the much abused short sale, when understood, turns out to be a simple credit transaction, and is no more wrong in principle than the millions of credit transactions accepted as a daily commonplace of the business world. Every time that merchandise is purchased on credit or part payment the transaction involves also a sale on part payment: and when a dealer sells goods on the part payment plan he is almost always "selling short," for he himself is buying the goods on a part-cash-down-and-balance-later plan, and, so far as his business as a whole is concerned, is continually selling something that he does not own.

When a merchant or manufacturer takes orders for goods to be delivered at a future date,

he naturally procures the goods in the meantime at as low a price as possible. Other things being equal, he will seek the dealers from whom he can obtain his goods at the least cost, and "chisel 'em down" all that is possible. He is distinctly a "bear" since his profit depends upon buying the goods at a low price. He is in the position of having sold short and then going out to fill the order at a minimum cost to himself.

The whole truth is that when men in any business are buying they are bears and when selling they are bulls. And the most pronounced "bearishness" in the world is that of the general public, seeking always the store, the garage, the market where purchases can be made and needs taken care of at the lowest price. Were it not for this it requires no imagination to realize what would happen to prices. Were it not for the bears precisely the same thing would happen to the stock market, and sometimes does in spite of them.

COMPARED WITH MARGINAL BUYING

When a stock is purchased on margin the buyer is using money that he does not own—is actually short on money—in the same sense that the short seller of stock on margin is using stock

that he does not own. In both cases money is obtained on credit for the purpose of securing the stock, and in both cases margin money is part of the amount available for obtaining the stock; that is, acts as a part payment in obtaining stock destined for the same use—sale at a profit. In one case the stock is obtained by purchase at the market price, while in the other it is acquired by borrowing and depositing the market price as security. Finally money is paid back for the borrowed money and stock is returned for the borrowed stock. Both operations are credit transactions of the same nature and for the same purpose.

WHAT A SEAT ON THE STOCK EXCHANGE MEANS

A SEAT on the Exchange does not mean a place to sit down. If there is any occasion where a seat is less needed during business hours than on an exchange, it must be in a bunyon marathon. In fact no better training could be suggested for cross country ambling than a few active days on the New York Exchange floor. The term "seat," as employed on this and other exchanges, means simply membership.

Stock exchanges are, in general, unincorporated membership associations. Memberships are obtained by charter subscriptions when an exchange is founded, or thereafter through bidding high enough to induce some member to sell, by purchase from a retiring member or from the estate of a deceased member. Membership carries the privilege of transacting business on the floor of the exchange, under the constitution and rules of the exchange, and also the right to em-

ploy fellow members to execute orders at reduced commissions.

COST OF SEAT

The memberships, or seats, are limited in number, and advance in price as the amount of business transacted on the exchange increases. Prices for membership fluctuate with business conditions. The total membership of the New York Stock Exchange is limited to one thousand one hundred, and full membership is maintained. On January 18, 1929, $620,000, the record to that date, was paid for a seat on the Exchange, which compares interestingly with a record price of $122,000 paid in July, 1925.

An applicant for membership in the New York Stock Exchange must be twenty-one years of age, a citizen of the United States, and acceptable in character to the Exchange Membership Committee. The initiation fee is $4,000, payable on the day of the applicant's election. Dues, not to exceed $1,000 a year, payable quarterly, provide for the expenses of the Exchange.

The membership personnel of an exchange consists for the most part of the traders and brokers who transact business on its floor. But this is

not all. The membership of nearly every exchange includes many of the leading financial figures of the locality. Seats on the New York Stock Exchange are held by some of the nation's greatest capitalists. These men never execute an order personally, but employ brokers to transact their business.

COMMISSION SAVED

Through their membership they obtain many valuable business contracts. They enjoy, too, a lower rate of commission for brokers' services than is charged to the general public. The volume of business done by these men is usually so large that the saving in brokers' commissions more than offsets expenditure for dues, and interest on the initial cost of the membership.

The Exchange is governed by a Constitution and rules, or by-laws. A Governing Committee, composed of the Exchange President and Treasurer and 40 members, is vested with the real powers of the organization. It has the power to suspend or expel members for any acts that violate the rules or that may be detrimental to the interests of the Exchange. In addition to the Governing Committee there are the Conference

Committee, the Committee on Admissions, the Committee on Business Conduct, and the important Committee on Stock List, that acts upon applications of corporations that desire to list their stocks on the Exchange.

ORGANIZATION OF THE STOCK EXCHANGE

ALL the stock exchanges of the country have adopted virtually the same system of organization, and the Constitution of the New York Stock Exchange has provided the pattern after which all the others are modelled.

The New York Stock Exchange is an unincorporated membership association. The total membership is limited to 1,000, and full membership is maintained. There is now under consideration an increase of the total membership to 1,375.

The internal organization of the Exchange is fixed, and it is governed by a Constitution and rules, the latter corresponding to by-laws. The legislative and judicial powers of the Exchange are placed with a Governing Committee composed of the President and the Treasurer of the Exchange and 40 members. The officers of the Exchange are the members of the Governing Committee, the Secretary, the First Assistant

Secretary and the Accountant. The President, Treasurer and 10 members of the Governing Committee are elected annually by the members of the Exchange. Any member in good standing has a vote.

STOCK EXCHANGE COMMITTEES

The Governing Committee has the power to suspend or expel any member for violation of the Constitution, for unfair conduct in connection with trading or for any acts that may be deemed harmful to the interests of the Exchange. It also has the power to appoint and dissolve all committees, to define and regulate their jurisdiction and to supervise all matters referred to such committees.

Most of the details of exchange government devolve upon 12 standing committees appointed by the Governing Committee. These are: Committee on Admissions (fifteen members), Arbitration Committee (nine members), Committee of Arrangements (seven members), Committee on Business Conduct (five members), Committee on Constitution (five members), Finance Committee (seven members), Law Committee (five members), Committee on Odd Lots and Specialists (five members), Committee on Pub-

licity (five members), Committee on Quotations and Commissions (nine members), Committee on Securities (five members), and Committee on Stock List (six members).

WORK OF COMMITTEES

The work of some of the committees is self-evident. The Committee on Admission considers all applications for membership, a two-thirds vote of the committee being necessary to elect to membership or to reinstate. The Arbitration Committee considers and adjusts claims and matters of dispute arising between members or registered firms, and between such members or registered firms and non-members.

The committee may decline to hear such cases submitted to them and refer them to law. The Committee on Business Conduct considers matters concerning the business relations of the members and customers. It has power to investigate the dealings and financial condition of members in order to guard against any improper transactions.

The Committee on Quotations and Commissions looks after the rules in relation to observance of commissions, partnerships and the offices of members, and has charge of all matters

relating to the collection, dissemination and use of quotations. The Committee on Stock List considers all applications for placing securities on the list of the Exchange, and makes rules pertaining to the requirements for listing.

REQUIREMENTS FOR ADMISSION AS BROKER

IT is estimated that stocks and bonds constitute the security for somewhat over 40 per cent of the total loans made by the banks of the country. That security collateral forms such a large proportion of the total amount of collateral held by banks, is evidence beyond question of the popularity of listed securities both with the banks and the public, and of confidence in the organized stock market and the shares of leading corporations in which it deals.

This confidence has been developed by the exchanges through years of strict observance of regulations for the protection of the security holders. The rules governing brokerage transactions and the high standard of conduct required of the brokers have safeguarded investors year after year for nearly 140 years. It is not so surprising, then, that not far from half the total credit of the nation is based upon securities approved by the organized stock market.

OBJECT OF EXCHANGE

No institution can function perfectly at all times, particularly one so huge and intricate in its workings as the stock exchange—speaking now of exchanges as a whole. There have been mistakes, many questionable individual practices and occasional fraud due chiefly to the ready negotiability of listed securities. But the very small part that these have played in the total record of stock exchange activities, is well indicated by the above present attitude of confidence on the part of banks and the public.

In general stock exchanges have given a splendid account of themselves in terms of the definition of their purpose that appears in the constitution of nearly all of them: "Its object shall be to furnish exchange rooms and other facilities for the convenient transaction of their business by its members, as brokers; to maintain high standards of commercial honor and integrity among its members; and to promote and inculcate just and equitable principles of trade and business."

ADMISSION REQUIREMENTS

No more concise and complete statement of the requirements for admission as a broker can

be made, than that of H. S. Martin a former first assistant secretary of the New York Stock Exchange[1]:

> " . . . the applicant must be a citizen of the United States; be of high character; have secured the agreement of a member to retire in his favor; be sponsored by two members who have known him at least two years; be in good health; free from debt; solvent; free from judgment; if engaged in lawsuits, must explain their nature; must present a written statement as to place of birth and business career; and letters from at least three persons of standing, testifying as to his integrity; if unable to pay for the membership with his own means the funds for the purpose must be a free gift to the applicant and released, otherwise he would not be free from debt, and he must agree not to allow the gift to become a debt; he should have some capital and must receive at least 10 favorable votes of the Committee on Admissions."

As to considerations for membership other than those mentioned no more democratic in-

[1] As quoted by J. Edward Meeker in "The Work of the Stock Exchange."

stitution could be found. Emphasis is placed upon a clean and honorable record, rather than upon place and circumstance of birth, and large means. However, when the requirements have been passed it is almost assured that there will be no deviation from "the high standards of commercial honor" to which the entrant subscribes when he signs the Constitution.

TYPES OF STOCK EXCHANGE MEMBERS

THE membership of a stock exchange usually includes many men, financial leaders of the community, who never execute an order themselves, but employ brokers to handle their business on the floor. The great majority of members, however, operate on the floor of the exchange themselves. These are broadly divided into two classes, traders or dealers, and brokers, though many members operate in both capacities. The traders, or "floor traders," buy and sell securities on the floor of the exchange for themselves. Their profit is dependent on the skill with which they deal in securities. Brokers, on the other hand, buy and sell securities on the floor of the exchange for others. Their profit comes from the commissions paid by their customers for service rendered.

FLOOR TRADERS

The traders are again divided into four general classes. The "floor" or "room" traders deal

in any active stock, buying and selling on their own account, usually on quick turns and for small and sure profits rather than large and uncertain ones. They will change their position in the market very quickly, and may be "bulls" one minute and "bears" the next.

Their activity benefits the market in that it is made more continuous by their steady stream of buying and selling transactions, thus making it easier to execute orders promptly. The volume of trading engaged in by the floor trader from day to day is such that his saving in the commissions that he would ordinarily be charged, is sufficient to justify his expenditure for membership and dues.

SPECIALISTS

The "specialists" are a group of dealers who specialize in one or a limited number of securities, making their headquarters at a post at that part of the floor where their specialties are dealt in. They are ready, under all conditions of the market, to buy or sell the securities that they devote their attention to. In doing this, like the floor trader, they help to create a continuous market, and render the commission brokers' business of executing orders for the public much

easier. Without the specialists fluctuations between sales of certain stocks would be much greater, and at times bids to buy or offers to sell the less active stocks would be lacking.

ODD LOT DEALERS

The "odd lot" dealers specialize in the handling of orders for less than 100 shares, the Stock Exchange unit of trading, and as a group have developed a continuous market to meet the rapidly growing demands of investors limited to trading in less than the 100-share unit. These dealers buy 100-share lots on the floor and split them up as required to fill the small orders that they have accumulated. Or they will buy small lots, and combining them, sell in 100-share lots on the floor. The odd lot dealers have previously been discussed at length.

ARBITRAGERS

The "arbitragers" are a group of traders who buy in one market, and sell simultaneously in another, the purpose being to realize a profit from the difference of quotations on a particular security in the two markets. Most arbitraging takes place between the New York and London Exchanges, though difference in prices listed on

the various exchanges of the country also offer opportunity for arbitraging. Owing to conditions that arose during the war, arbitraging is no longer conducted on the floor of the Exchange, the arbitragers now operating from brokers' offices.

TRADERS AND COMMISSION BROKERS

THE membership of the Stock Exchange is divided into two general classes known as traders, who buy and sell on their own account, and brokers, who transact business for the public on a commission basis. There is no strict line of demarkation between the two and many members work in both capacities.

The group in which the public has the more direct interest is of course the brokers. This public interest is at present very evident in the crowded brokerage offices here in New York City and elsewhere. Men and women of every description may be found in the board rooms, anxiously scanning the quotations. The men who accept the responsibility for carrying out in the market the orders of all these "customers" are known as commission brokers and their firms are called commission houses.

COMMISSION BROKERS

The commission broker is a partner in the commission house, and, holding a Stock Ex-

change membership, represents his firm and executes its customers orders, on the floor of the Exchange. The firm receives a commission for either the purchase or sale of securities, hence the name commission house. The amount of the commission depends upon the price of the security handled.

It is the duty of these brokers to execute the customers' orders with the least delay, at the best possible price and in strict accord with the terms specified. The broker naturally is eager to give his best services, for customers pleased with the prompt execution of orders mean large business.

The different commission or brokerage houses may vary widely in the character of clientele served and the types of business transacted. Some cater to a few wealthy customers, while others, through branch offices and out of town representatives, handle the orders of thousands of average investors all over the country. This is made possible through the growth of the "wire house." Wire houses are commission houses that cultivate telegraphic orders from distant cities.

This type of business has been developed to a very high degree of efficiency through the con-

trol, by such firms, of private telegraph wires tapping all parts of the country. Then, too, there are the odd lot houses, which deal exclusively in lots of less than 100 shares. Other houses may specialize in certain group of securities and gain a reputation in rails or coppers or motor stocks. Some of these commission firms employ many floor representatives, one exclusive odd lot house, for instance, having 39 members on the floor.

"TWO-DOLLAR" BROKERS

Another kind of broker, and they are all divided broadly into these two types, is the "floor broker," sometimes called the "two-dollar" broker for the reason that formerly they received a fixed rate of $2.00 per 100 shares dealt in, for their services. The floor brokers are not attached to any particular house, but use their membership to execute orders for any commission firm when the members of that firm on the floor are so busy that they require assistance. In other words they act as brokers for the other brokers.

Their compensation today is greater than the original $2.00, but still, of course, far below the commission charged to the public, the difference going to the commission house. The value of the floor broker lies in the fact that he acts as a sort

of escape valve, and when the business of the exchange boils over, the excessive fluctuation in the number of sales is absorbed by his operations when the regular brokers could not handle all the orders.

THE BROKER'S RESPONSIBILITY TO THE CUSTOMER

STOCK exchanges have, through the years, developed definite methods of transacting business, and the duties and obligations of brokers and their customers have been well established by usage and law. Since the New York Stock Exchange is the pattern for all the other exchanges in this country, discussion of practice in this greatest stock market of them all has general application.

The service of the Exchange for trading purposes is available to everybody on an equal basis, with the exception that under the rules of the Exchange no employee of a stock exchange house, bank, trust or insurance company can open a speculative account without the written consent of his employer.

OPENING AN ACCOUNT

Opening an account with a brokerage firm is as simple as opening a bank account and quite

similar. A form requiring name, address and occupation is filled out by the prospective customer for the broker to file as a matter of record and identification. If trading is to be conducted on a cash basis, this is all that is necessary. If the account is to be carried on margin the usual character, bank and business references are expected to establish the customer's responsibility. It is the practice of some of the brokerage houses to obtain a signed agreement that the new customer will maintain sufficient margin on his account with the broker, and that upon failure of the customer to meet calls for additional margin when necessary, the broker is free to sell the security.

The relationship between customer and broker is, in general, that of principal and agent. The broker must to the best of his ability, and with diligence and good faith, carry out the orders of the customer. In the handling of purchases on margin the relationship between customer and broker is that of pledgor and pledgee.

BROKER'S DUTIES

In a marginal transaction the broker is obligated to:

1. Advance whatever amount of money is necessary above the required margin for the filling of an order.

2. Purchase the stock as soon as possible after the receipt of an order.

3. Retain the stock as the customer's property, and at the risk and subject to the order of the customer.

4. Give notice to the customer when additional margin is required and advise that the account will be closed in the event of failure to meet the demand.

5. Sell the shares at the customer's order and remit the amount due him from the sale. A statement of all transactions must be made to the customer and the broker, under the Exchange rules, is prohibited from taking a secret profit from the transaction.

6. Deliver the stock to the customer upon receipt of the balance due on his account, this balance including commissions, taxes, interest and any other expenses attached to the handling of the account. All dividends paid on the stock in the meantime are credited to the customer.

It is the duty of the customer to keep his account amply margined. He must reimburse the

broker for all expenses incurred on his account. He must pay the customary commissions to the broker upon completion of the transaction.

HOW TO GIVE ORDERS TO THE BROKER

IN placing orders for stock the manner in which the stock is to be paid for, the price to be paid, the time allowed for purchasing and the manner of delivery desired, must all be taken into consideration. Shares may be paid for in cash or on credit, that is: bought "outright" or on "margin." In the matter of the price at which the purchase or sale of the security should be made, the order is specified as either "limited" or "unlimited." Limited orders may state either a definite price or set a limit of a few points one way or the other, within which the order is to be executed.

LIMITED AND UNLIMITED ORDERS

In the case of orders limited to a specified price, the customer, if the transaction is a sale, sets a definite figure below which the broker may not make the sale: if the transaction is a purchase of stock, a price is set above which the broker

cannot go. He must buy at the specified price or less. The other form of limited order is what is known as a "stop order," and as it has very important uses is discussed at some length in the following section.

The unlimited order, which specifies no price and which must be executed at once and at the best price obtainable on the market at the time, is called an "at the market order." Such orders are usually given in the case of very active speculative stocks, and by creditors when closing out collateral to forestall any possible adverse price movement.

Unless otherwise stipulated by the customer orders are considered by custom to be good only upon the day during which they were issued, and automatically expire at the close of the day. The customer may, if he wishes the order to remain in for a longer period, set a time limit within which the broker may execute the order. Thus, if a week is to be allowed, the order is marked: G. T. W., which means "good this week," and G. T. M., means "good this month." If it is desired to leave the order open indefinitely it is marked G. T. C., or "good till cancelled."

G. T. C. ILLUSTRATION

A typical illustration of an order limited to a definite price and good till cancelled is the following: "Buy (or sell) for my account and risk 100 Western Union at 180, G. T. C." Here the order must be executed in the open market by the broker, as soon as possible, at the specified price of 180, or at a better price if the stock is offered under (or bid over) 180 when the order reaches the floor. If, in the case of a purchase, Western Union advanced above 180 before purchase could be effected, and remained so for the day, the order would ordinarily expire.

With "good till cancelled" marked on the order, however, it may be executed any day following if the price falls to or below 180. Similarly a selling order must be executed at 180 or better. "Better" means below the stipulated price if it is a buying order, and above the specified price if it is a selling order.

USE OF STOP LOSS ORDERS

THE "stop loss order" or "stop order" is used when the customer desires, after having purchased stock, to limit his possible losses to a few points. For example, if after buying a stock on margin, the trend of the market is downward, the customer may specify to his broker a price below the current quotation on his stock, at which it is to be sold. Or if the customer has sold stock short, he will similarly stipulate a price above the current market, at which the stock is to be bought to prevent further loss on his short sale.

Having bought 100 U. S. Steel common at 150 the buyer may give the following stop order: "Sell 100 U. S. Steel common at 147, stop." In this case the customer desires to limit his loss to three points. As soon as the price of the stock has dropped to 147 or less, the stop order to sell becomes an "at the market order" under the rules of the Exchange, and the broker is obliged to sell the security even though

he may sincerely expect an immediate rise in price.

LIMITS LOSS

As the broker is obliged to act at once on what has now become an at the market order, he may not be able, particularly in a rapidly fluctuating market, to sell the stock at the stipulated price. The next bid following the sale at 147 may be considerably lower, and the transaction has to be closed on this basis, the customer taking the loss.

In the case of a short sale upon which the customer wished to limit his loss, the stop order would read: "Buy 100 U. S. Steel common at 153, stop." This would become a market order at 153 or more. The broker's duties would be the same, and he would be governed by the same regulations as when executing the selling order above. He would sincerely attempt to get the customer out at 153 or as little above as possible. Any stipulations may be made as to the time during which such orders are to remain in force, but unless otherwise stated they are considered to be good till cancelled.

STOP ORDER MANIPULATION

The broker handling a stop order is restrained

by usage and by many court decisions from any manipulation of the market for the purpose of making a stop order become operative as a market order. There have been occasions when the discovery by market manipulators that numerous stop orders exist in a given security, has been used to force down the price of the stock.

Stop orders, for example, may have been placed on a stock quoted 150, at 148, 146 and 144. Since these orders become market orders as soon as the stock in question sells at the above prices, manipulators, if informed of the situation, may sell the stock heavily and depress it from 150 to 148, when all stop orders at that price become effective. The resultant selling may still further lower the price to the next stop orders, etc. When the last group of stop orders have been forced on the market, the manipulators start accumulating the stock, and proceed to bid it back to its former price.

If the customer desires to stop a loss, and at the same time does not want to sell at less than the stop price, he can make use of a "stop and limit order," as follows: "Sell 100 U. S. Steel common at 147, stop and limit." Or this may be varied to: "Sell 100 U. S. Steel common at 147,

stop, limit 146." In the first instance the broker cannot sell for less than 147, and in the latter he must sell at 147 if possible, and not less than 146.

RULES GOVERNING DELIVERY OF STOCK

WHEN an order is given to buy or sell stock on an exchange, there are several ways, specified by the rules, in which delivery of the stock may be called for. Orders may thus be classified according to the terms of delivery. The regulations of the New York Stock Exchange in this respect are typical.

KINDS OF DELIVERY

If the securities are to be delivered by the seller upon the same day that the purchase is made the transaction is said to be "for cash." Payment in cash, or purchase "outright," always calls for such delivery unless otherwise stated.

Delivery of the securities by the seller upon the business day following the day upon which the contract is made is said to be "regular way." Bids and offers without stipulated conditions are always considered as regular way, and the great majority of the business on the Exchange is of this class.

When delivery of the securities is to be made the third day following that upon which the deal is made the transaction is said to be "at three days." Some exchanges permit two-day contracts that call for delivery upon the second day following the making of the contract.

Another arrangement for delivery is that known as "buyer's" or "seller's" option. This is for not less than four days nor more than sixty days. The usual forms of such options are to buy or sell securities "buyer thirty" days or "seller thirty" days, or "buyer sixty" or "seller sixty." These options give either the buyer the right to call or the seller the right to deliver at any time within the limit fixed. On all such transactions for more than three days written contracts must be exchanged on the day following the deal, and such contracts unless otherwise agreed carry interest at the legal rate.

SPECIAL CASES

Delivery arrangements not provided for by the rules of the Exchange may also be made conditioned on the happening of some future event. Illustrative of such offers are those to buy or sell securities "seller (upon) opening of books," or (securities) "to arrive" or "when

issued." Delivery must then be made as soon as the stated event occurs.

Under the rules of the New York Stock Exchange all deliveries of securities must be made before 2:15 P.M. of the day when delivery is called for by the terms agreed upon. When deliveries are not made by that time the contract may be closed "under the rule." Contracts falling due on holidays or half-holidays observed by the Exchange, are settled upon the preceding business day. Contracts falling due upon the second or a later day, in the event of a succession of holidays, are settled on the first business day following. On half-holidays securities sold "for cash" must be delivered at or before 11:30 A.M.

BID AND ASKED

BIDDING and asking was the soul of horse trading in the good old days before horse-power was put up in conveniently sized cylinders. The same general principles that governed bargaining in the live stock markets then—and still do—apply equally to trading in the stock market. The particulars of trading on the stock exchange are less crude but fundamentally the transactions are very similar. The "bid price" is the offer made for a security by a prospective buyer. The "asked price" is that proposed by the seller of a security as a basis for transactions leading up to a sale. Somewhere between the two is the "actual price," at which the deal is finally closed.

A TYPICAL TRADE

As an illustration of how "horse trading" is conducted on the floor of the Exchange, take the following example: A broker on the floor of the Exchange receives an order to buy 100 shares

of Universal Banking Corporation (doesn't exist but will if they keep on) at 105. The broker hastens to the post on the floor where U. B. C. is bought and sold.

Pushing his way into the U. B. C. "crowd," a group of brokers and dealers who are particularly interested in this stock, and who are now calling out bid and offer, or asked, prices, he hears U. B. C. offered at 105⅛, and 104⅞ bid. Or he may ask a specialist in the stock: "What's the market for U. B. C.?" and the specialist will reply, "104⅞ bid, offered at 105⅛," or simply, "104⅞ to 105⅛."

All this means is that somebody at that immediate time is willing to pay not more than 104⅞ (or $104.87½) per share, while the least anyone will accept at the moment is 105⅛ ($105.12½). Desiring to benefit his customer by buying the stock at less than 105 if he can, the broker adds his voice to the chorus and bids 104⅞. It appears, however, that no one will take 104⅞, so he then shouts: "I'll buy 100 Universal Banking at 105." Immediately one of the brokers who has been asking 105⅛, says: "Sold, indicating that he will accept the 105 bid.

The word "sold" ends the transaction, and 105 becomes the actual price of that particular

trade. From which it will be seen that in general buying and selling on the Exchange floor is as free and open in its determination of a fair and mutually satisfactory price as a simple deal anywhere between two individuals.

KINDS OF PRICES

There are other terms commonly used in connection with prices on the Stock Exchange. "Market price" is that at which a security is selling in the open market at any given time. The price quoted on securities or commodities for immediate delivery is known as the "spot price." This term is usually confined to commodity markets.

When actual transactions are lacking the "nominal price" is an approximation of the probable value of a security as a basis for trading. The "firm price" is a price quoted and held to for a definite period. It applies particularly to inactive stocks. "Exhaust price" is that at which the margin deposited on a certain stock may be exhausted by the drop in price of the stock in question.

BROKERS' CHARGES

THE cost of buying and selling securities through stock exchange brokers is, of course, a matter of prime interest to everybody who is doing so or who may have it under consideration. The broker acts only as the customer's agent and has no more share in the speculative gains or losses of the transaction than a real estate agent has in the profits that may subsequently be made on property that he has sold. The broker receives his pay in the form of a commission based upon the amount and value of the security dealt in.

One of the first steps taken by the little group of men, who, 140 years ago, formed the first organized stock market in this country, was to come to an agreement among themselves as to the percentages that they would charge for their services. Today, on the New York Stock Exchange, this matter is controlled by the Committee on Quotations and Commissions, which has charge of all matters pertaining to quota-

tions, and enforces the rules relating to commissions, partnerships and branch offices. This committee reports to the Governing Committee any violations of these rules. This eliminates any unfair practice among the brokerage concerns and assures the public of a fair and uniform charge for services.

BROKERS' COMMISSIONS

The amount of the commission depends upon the number of shares involved and the price per share. The following commissions apply on the New York Stock Exchange:

					Per 100 Shares.
Stocks	below	$ 10.	per	share	$ 7.50
"	"	25.	"	"	12.50
"	"	50.	"	"	15.00
"	"	75.	"	"	17.50
"	"	100.	"	"	20.00
"	"	200.	"	"	25.00
"	"	250.	"	"	30.00
Each	added	50.			5.00

These read $10. and above, but under $25.; $25. and above, but under $50., etc.

The minimum commission on an individual transaction in stock is one dollar. A commission

is charged for both buying and selling. Thus the broker in a 100-share transaction in a stock selling at $100 or above, but under $200, would receive as his commission $20 for buying the stock and $20 for selling it. The cost for both operations would amount only to about two-fifths of one percent of the value of the stock.

There is a small Federal tax of two cents on the transfer of each $100 par value of stock, and on each share of stock having no par value. Some states also impose a state stamp tax in about the same amount. The broker always pays such taxes when called for and adds the amount to his charges.

MARGIN ACCOUNTS

On margin accounts, when the broker has borrowed money from a bank or other source for the purpose of making a purchase of securities for the customer, he usually charges the client a slightly higher interest rate on the borrowed amount than the bank charges him. This is to compensate him for the expense and responsibility of obtaining the money.

The New York Stock Exchange rules call for a commission of not less than $2.00 for $1,000 par value on bonds. The New York Curb and other

exchanges have their own schedule of commissions on stocks and bonds. A member of the Exchange transacting his own business on the floor of course has no commission to pay. If he conducts his business through another member, the latter receives a commission but at a rate far below that charged the public.

GENERAL NATURE OF SECURITIES

KING TUTANKHAMEN and his ancestors, no doubt, witnessed the simple association of two or more men who would combine their resources, share whatever risk was incurred and divide the earnings of some enterprise in which they were mutually interested. Business partnerships are of great antiquity and still are a common and successful form of organization within their present limits.

The idea of the modern corporation developed naturally enough from this time-honored partnership combination. If two men, or a little group of men, combined their resources or part of them for the purpose of conducting a business, why should not many do the same thing? Modern conditions, with the necessity they have created for highly organized, huge scale production, have done the rest.

MANY STOCKHOLDERS NEEDED

The enormous capital investment and operating expenses characteristic of the giant indus-

tries of the present, require such vast sums of money that the amount can be made available only through the combined investment of many, frequently tens of thousands, of partners. These partners, however, are not in the position of the partnership associates of King Tut's time or the present—usually very close to and often working in the enterprise involved.

These modern partners, on the contrary, are scattered often to the four points of the compass, and, aside from their stock ownership, are as a rule not identified with the business in question. For this reason, and the fact that they do not act directly in management, they do not want to assume the liabilities of the corporation. To attract the investor, therefore, the stockholders' financial responsibility is limited to the face value or purchase value of stock. On the other hand the management is under no compulsion to return the money paid for shares of stock, nor to pay dividends, though the latter is of course the chief purpose and desire of the management.

COMMON STOCK

The shares of common stock represent the holders' proportionate ownership and right to share in the profits of the issuing corporation.

Before any part of earnings is available to the common stock, however, all prior claims against the corporation must be satisfied.

No dividend rate is specified, but all the profits above such claims usually go to the common stock holders, though preferred stock is sometimes given participating rights in these profits. Each share of common stock customarily carries the right of one vote in the affairs of the corporation.

PREFERRED STOCK AND BONDS

Preferred stock is so called because it is given the preference as to earnings and assets. Any net earnings in excess of the interest requirements on the bonded indebtedness are first available as dividends on the preferred stock. This dividend, however, is fixed, usually at six to eight percent, and profits beyond the understood limit are not shared in by preferred stock unless a special arrangement has been made.

In the event of failure or dissolution of the corporation, assets over and above those securing the bonds, are first used for the benefit of the preferred stockholders. Assets then remaining go to the common stockholders. Preferred stock is not usually given the voting privilege.

The bond is entirely different in nature from stock. The stockholders are the owners of the corporation. The bondholders simply loan to the stockholders money that is secured by the property or other assets owned by the latter. Interest is paid on the loan represented by the bonds at the rate usually of four to five percent. The bonds are generally based on mortgages or deeds of trust covering valuable property of the corporation. Possessing the right of foreclosure the bonds receive first consideration over all other forms of security.

SIGNIFICANCE OF LISTED SECURITIES

BILLIONS of dollars have been lost to the public through the purchase of promotional and uninvestigated stocks. If the unfortunates who lost this money could, before buying, have afforded to employ a committee of financial experts to give them a comprehensive report upon the security in question these billions might have been saved for expenditure in legitimate and useful channels.

Before any security is listed on a stock exchange the report and approval of just such a committee is required. The legality of the issue and the financial standing and operating condition of the applicant for listing are all investigated by the Committee on Stock List, and must meet the required standards of the stock exchange. A stock exchange cannot, of course, guarantee the value of a security. This is determined by conditions over which the exchange has no control. But the listing of a security is assurance to the public that the issue is bona

fide and surrounded by all reasonable safeguards.

BENEFITS THE PUBLIC

From the viewpoint of the public listing offers other advantages also. The publicity to which listed securities are subject, is one of the best protections that investors can have. Corporations on the list are under agreement with the exchange to render to their stockholders reports of physical and financial condition at regular intervals. They also agree to give prompt notice concerning privileged subscriptions, dividends or interest, and not to dispose of subsidiary interests without due authorization of shareholders. These rules of the New York Stock Exchange, after which all others are closely patterned, include making available to the general public all the facts gathered in the process of listing.

Such information, however, is considered confidential until approved, but once approved it becomes a matter of stock market information. The Exchange acts upon the principle that all the facts obtained in connection with the listing requirements, should be made public for the benefit of anybody who is trading in or who may

trade in the security in question, and who may have no access to the records of the company. In publishing applications the Exchange authorities avoid all promotion literature and recite only the pertinent facts.

ADVANTAGE TO CORPORATIONS

From the viewpoint of the corporation whose securities are listed, on the other hand, there is the great advantage of a wide, continuous market, where sales of their securities occur with the least waste of time and the smallest fluctuations between sales. When a security has been admitted to the floor of the New York Stock Exchange, it has the whole world for a market. Its status and value are known immediately wherever the Exchange quotation service extends.

The investors are again benefited by this improved marketability, for it makes the listed security more readily convertible. In the wide market some one is always buying and selling. This in turn means greater loan value for the listed securities, as the ready market makes listed stocks more acceptable as collateral for borrowing purposes than unlisted ones. Through the

quotations the judgment of the entire market as to the value of the security is available at any time, and the quoted prices thus give the banks an immediate and reliable basis for loans.

REQUIREMENTS FOR LISTING SECURITIES

WHAT an amazing year 1928 was for the stock market! On the New York Stock Exchange alone, 920,550,000 shares of stock changed hands, a huge increase of sixty percent over the total sales for 1927. Allowing an average value of $100 per share, the business for 1928 involves in excess of $92,000,000,000. To this must be added the $2,939,627,000 bond sales on the Exchange. In round figures 1928 has been for the New York Stock Exchange a $100,000,000,000 year.

The safeguarding of the interests of the millions of individuals concerned in this vast expenditure, is a matter of the most critical importance. The extent to which this is accomplished through the listing requirements of the Exchange, can be only suggested within the limits of this section.

REQUIREMENTS FOR LISTING

A corporation desiring to have its securities

listed on the New York Stock Exchange, which is typical of other exchanges, must first make a formal application. This application is passed upon by the Committee on Stock List, which is composed of five exchange members selected from the forty members of the Stock Exchange Governing Committee. Comprehensive information is required to establish that the applicant is a legal, financially sound and going concern.

Three sets of documents are provided which must be filled out by the applying corporation. First, a questionnaire is supplied which determines that the application and applicant are properly authorized, that the condition of the security meets the requirements of the Exchange and that the applicant is willing to abide by Stock Exchange usage. Then a distribution statement is furnished, the filling out of which is a very important part of the application. This statement is designed to set forth the manner in which the securities of the applying corporation are distributed.

A free and open market is the great purpose of the Exchange, and it is therefore imperative that securities shall not be held in large blocks or under the control of a small group of share holders. The distribution statement best liked by

the Committee on Stock List is one showing wide ownership of small lots among many shareholders.

Finally, there is a list of requirements which must be met. There is space to mention only the more important of these. Complete information as to the general character and purpose of the corporation is required. The purpose of the issue to be listed must be stated. Papers establishing the legality of the issue, and copies of the corporation charter and by-laws must be submitted. A complete financial history of the corporation, and the latest balance sheet and profit and loss statement are also required.

ACTION ON APPLICATION, AND RIGHT OF REMOVAL FROM LIST

When the necessary information and papers in the correct form are in hand, the application is acted upon at a hearing of the Committee on Stock List. It is also posted on the floor of the Exchange for the instruction of the members, who may also give the committee any information that they possess concerning the applicant. The committee, finding the application satisfactory, then recommends it to the Governing Committee, which usually accepts and acts in

accordance with the recommendation. Notice is then sent over the tickers, and trading in the security on the Exchange starts at the opening the morning following.

The Governing Committee reserves the right to suspend dealings in securities, or remove them from the list, for any reason held by the committee to be sufficient cause for such action.

THE STOCK AND BOND TICKER

THERE is perhaps no other business in which speed is of such great importance as in the stock market. For the professional traders and speculators, whose buying and selling orders are based upon current prices, immediate knowledge of changing prices is imperative. A few minutes may represent a very serious difference to them. Investors scattered all over the country desire at least a daily record of the value of securities that they hold. Bankers and other creditors holding securities as collateral for loans, find it necessary to know at any given time the value of that collateral. The "ticker" is the answer to this demand for prompt information concerning the stock market at approximately the same time all over the country.

THE STOCK TICKER

The ticker is an instrument, familiar in appearance to everybody, telegraphically operated

to record in numerals and alphabetical symbols the sales on the floor of the exchange. The symbols or abbreviations for, and the prices of the stocks, are printed by the instrument on a three quarter inch tape as rapidly as transactions are completed upon the floor.

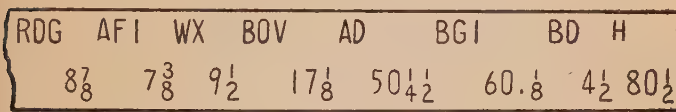

Illustration of Section of Ticker Tape

The transactions recorded are: Shares (number not given) of Reading at 108⅞, Atlanta Refining at 67⅜, Westinghouse Manufacturing at 139½, American Brown Bov. at 17⅛, American International at 150¼; same at 150½, Briggs Manufacturing at 60; same at 60⅛, Borden Co. at 184½, Hupp Motor at 80½.

This indicates, for example, that a certain number of shares of stock of the Borden Company (known to all housewives), the symbol for which is BD, were sold for $184.50 per share immediately before the quotation appeared on the tape. To save time the hundreds and in most cases the tens are omitted from the tape as being well known to those interested in the market.

Until last November the number of shares, or "volume," of the sale was also printed on the Exchange tape. The volume of business, however, became so great that the ticker was far behind transactions on the floor, and for the purpose of speeding up quotations to the utmost, volume was at that time, and has since been, omitted from the tape. Previous to this change, since the unit of trading is 100 shares, whenever the price alone appeared on the tape, it was understood that the transaction was for 100 shares of stock. If the price was preceded by the figure 2, a deal in 200 shares was indicated, etc. The volume is still printed on the Exchange bond tape, on the Curb tape and by the ticker service of smaller exchanges.

THE BOND TAPE

On the bond ticker tape a record of transactions in bonds on the Exchange is similarly printed. The symbol for the bond to be quoted is printed, together with the interest, maturity date (if more than one issue bearing the same interest), amount and price. Thus, ST—5s—75—5—94, would read: $5,000 of Chicago, Milwaukee and St. Paul 1975 5s at 94. As bonds are

sold in units of $1,000, this amount is understood when none is given.

In the above instance the 5 preceding the price 94, shows that bonds having a face value of $5,000 were purchased. What the tape so briefly states is that somebody has purchased Chicago, Milwaukee & St. Paul bonds with a face value of $5,000, maturing in 1975 and bearing five percent interest, for which he has paid $4,700. Bond prices are quoted in percentages of their face value, and 94% of $5,000 gives the price paid for the bonds in the above illustration.

DISTRIBUTION OF MARKET NEWS

WHILE the ticker service is the most important factor in the dissemination of stock and bond quotations it is supplemented by many other agencies for the distribution of quotations and financial news. The telegraph, telephone and cable are, of course, essential to the transaction of business on our organized markets. The more important commission houses all have private leased wires and telephone lines. Through cable services the stock market operations pass beyond the limits of the nation and become international. Without these facilities for prompt contact with the entire country and the world, the stock exchange as now conducted would be utterly impossible.

THE NEWS TICKER

Supplementing the quotation tickers are the news tickers. These operate on the same principle as the former, but print current news having stock market value on a band of paper about six

inches wide. They are operated by news bureaus and distribute information on prices, money rates, dividend declarations, and any news having important bearing on individual securities or the market in general. A service of this sort, distributing news rapidly and accurately, is now established in most of the larger cities.

Another service rendered by the news bureaus is the "bulletin service." Bulletins, or news sheets, are run off every few minutes, giving in more detail than is practical on the news ticker, any items culled from the latest news despatches that are of consequence from the market viewpoint. These bulletins are distributed at once by messengers to the subscribers for the service, and usually are then clipped on a file for the perusal of customers.

NEWSPAPER MARKET REPORTS

The daily newspapers play a most important part in distributing stock market information to the public, and are in fact the chief source of market news for the great majority of people. In the newspapers space is afforded for complete quotation lists, comprehensive market comment, detailed news accounts of events affecting various securities or the market as a whole, statistics and

summarizations, etc. From a few columns, to three or four pages or more in the big city papers, is devoted by the modern newspaper to the subject of the stock market.

The newspaper is the stock market's greatest educational agency, and at the same time acts as the greatest protection for the public. The immediate and widespread publicity given by newspapers to any illegal or fraudulent occurrence is the most effective of all factors in the correction of evils.

With respect to market conditions, status of various corporations, and information covering the whole commercial and financial field from the investor viewpoint, no stone is left unturned by the publishers of numerous reports, indexes and directories. Certain trade journals too are devoted to financial matters. One purpose of all this is to make available to the business man, in combined and condensed form, expert information of the particular kind that he requires in his field. A great saving is thus effected through making it unnecessary to conduct a long and expensive search for vital information.

To this very large supply of market news and information must be added the immense amount of literature issued by brokerage firms, bond

houses, banks, etc., in the form of market letters and booklets. Clients of all the larger houses are put on the mailing list and receive market letters and circulars regularly.

PUTS AND CALLS

AN option, as generally known, is the privilege granted one person by another to do a certain thing within a specified time limit. "Options" or "privileges" in the stock market, are agreements made between two individuals or firms that one will have the right to buy from or sell to the other certain securities at a definite price within a limited time. An agreed amount or "premium" is paid for the option, and if it is not exercised within the specified time limit the owner is out only the cost of the option —not having bought or sold the stock named.

THE PUT

A "put" is an agreement between the seller, or "maker," of the option, and the purchaser, or "holder," that the former will buy from the latter a given number of shares of a designated stock, at a certain price within a fixed time limit, if called upon to do so. To illustrate: If the price agreed upon, or the "put price," is 75 for thirty

days, and the stock in question drops to 65 at or before the expiration of this time, the holder of the put can buy at 65 and under his agreement deliver to the maker at 75, thus taking a profit of ten points, from which must be deducted the cost of the put.

A put or call under the American system can be closed whenever there is a profit for the purchaser and he desires to take it. Had the stock on the other hand gone to 85 the holder of the put would simply let it expire and lose only what he had paid for the privilege. Puts are purchased when a decline in the stock is anticipated, and are a means of getting the benefits of selling short without being obliged to deliver the stock.

THE CALL

A "call" is an option which gives the purchaser the right to compel the maker to sell a given number of shares of the stock named at a definite price within a given time. Thus: If the call price is 75 and the stock advances to 85 on or before the date that the call expires, the purchaser has a profit of ten points, minus the cost of the call. On the other hand, had the stock dropped to 65, the purchaser would not exercise

the option, and would be out only the premium paid for the call. A call is used when the stock under consideration is advancing in price, and the purchaser intends either to take a direct profit or to protect a short sale against a rising market.

STRADDLES AND SPREADS

The "straddle" and "spread" are combinations of the put and call, and give the purchaser the right, in view of the premium paid either to deliver to or demand delivery from the seller of these privileges an agreed number of shares of a given stock at a stipulated price within a given time. The cost of such options is naturally more than that of a put or call, since the maker is taking greater risk. The put or call feature can be exercised at any time within the stipulated period, and the closing of the put privilege does not cancel the call feature. If in a thirty day option of this type the put should be closed at the end of fifteen days there would still be fifteen days left in which to exercise the call.

In a put the price at which the stock may be delivered to the maker is placed below the quotation current at the time the option is made. In a call the price at which the maker will deliver

stock is made higher than that prevailing at the date of purchase of the option. In the spread, the delivery prices are placed respectively lower for the put and higher for the call than market prices prevalent when the straddle was made. In the case of a straddle the delivery price is the same for either the put or the call, usually the market price of the security at the time of purchase.

USE OF PUTS AND CALLS

WHEN legitimately employed puts, calls, straddles and spreads have valuable uses in the stock market. When used illegitimately trading in them is a plain gambling, "bucket shop" procedure.

TO INSURE AGAINST LOSSES

The use of privileges as a form of insurance against possible losses in other deals in the securities involved is of great value to traders. For example: if a trader has purchased stock in the expectation of a rise, but at the same time desires to protect himself against possible declining prices and loss, he can buy a put for the sale of his stock. This will enable him, should prices decline, to sell his stock to the maker of the put at a price agreed upon. In this manner his losses, regardless of the amount that the stock may decline, are limited to the cost of the put, plus the difference between the purchase price of the stock and the price named in the put.

On the other hand had the trader sold a stock short, anticipating a declining market, he can protect himself in the event of a rise. This he would accomplish by the purchase of a call to buy the stock he had sold. Should the stock then advance he could be certain of obtaining the shares to cover his short sale at this call price. His loss would then be limited to the premium paid for the call and the difference between the price at which he sold and the call price at which he bought.

Similarly a dealer who may be very active in a certain stock, and who may change his position from buying to selling many times, can utilize the straddle or spread options for his protection. On highly fluctuating stocks dealers are at times reluctant to sell options because of the excessive hazards.

PRIVILEGES AT THE MARKET

In purchasing the put he could, if he preferred, have it made "at the market"—that is, for delivery at the same price that he paid for his stock. His loss then would be limited to the cost of the put and the usual brokerage charges for buying and selling the stock. Similarly a call

may be purchased at the market to obtain a like result.

While puts and calls are usually sold with the delivery prices of the stock named "points away," or a few points respectively below or above the market at the time the option was bought, they can also be purchased at the market by paying a higher premium. When buying straddles and spreads the same choice is possible, for the straddle combines the put and call privileges at a uniform price, while the spread specifies a delivery price below the market or "points down" for the put, and above the market or "points up" for the call privilege.

TO PROTECT PROFITS

Options are also properly used for the protection of profits. If a trader finds himself in a position to take a profit from his deal, but expects that a greater profit can be made by waiting, and at the same time does not want to risk the profit he already has, he uses privileges in the same manner as indicated above. In this case they are employed to protect profits rather than to limit losses.

MISUSE OF PRIVILEGES

Privileges are sometimes wrongfully used for the purpose of manipulating or even cornering the market. A big operator, interested in accumulating a certain stock, may depreciate it by offering calls on a very liberal basis, thus creating the impression that he is convinced that the security in question is due for a drop.

Puts and calls are illegitimately used in those transactions in which there is no intention of delivering. It becomes a mere gambling matter—betting on price fluctuations—and the settlement of the option consists only of paying the difference between the agreed delivery price and the price current when the option is closed. The New York Stock Exchange rules do not permit the sale of privileges on the floor of the Exchange, but Stock Exchange houses sometimes indorse the puts and calls sold by nonmember brokers, assuring fulfillment of the contract by a financially responsible house.

PRIVILEGED SUBSCRIPTIONS

WHEN a corporation desires for any reason to sell a new issue of stock it gives the old stockholders the privilege of subscribing for additional stock in the same proportion as they hold the old, at a price lower than the current market price of the security in question. This subscription privilege is commonly called a "right." The reason for the issuance of such rights, rather than selling the new stock directly to the public, is protection of the old stockholders' interests.

Every share of stock represents a definite interest in the corporation issuing it. If a corporation issues 100,000 shares of common stock the investor who buys 1,000 shares acquires, under ordinary circumstances, a one-hundredth control of the company and one-hundredth part of the dividend available for the common stock. With the development of the business a substantial part of the net earnings of the corporation is devoted to building up the property and

general expansion. These earnings would otherwise go to the stockholders in the form of dividends. So the stockholders are in the position of reinvesting their dividends in the growing business for the purpose of building larger future dividends. To sell to the public an issue of stock against this property, built up by the old stockholders, would manifestly be unfair to the latter. As a matter of equity each old stockholder is entitled to retain the same relative share in the control and earnings of the company.

RIGHTS

The only way in which this can be accomplished is to pro rate and sell the new issue of stock to the old stockholders. To do this it is necessary to offer the stock at a price which will be attractive, which will provide against the possible decline in price that may result from the new issue, and enable the stockholders, should they not be in position to take more stock in the company, to sell their right to the stock at a price which will recompense them for their loss on each share on the issue of additional stock.

The meaning of the term rights, as used on the New York Stock Exchange, is different

from that signified in the Philadelphia market. In the New York market a right is represented by the amount of the new stock that each share of the old is entitled to. In the Philadelphia market a right is the privilege to buy one share of the new stock. In the former case, if an old stockholder is privileged to increase his holding 20 percent, the privilege of buying one-fifth of a share of the new issue goes with each old share, and is called a right; while in the Philadelphia market five shares of the old stock, or five New York rights, are required to constitute one right, or the privilege of buying one stare of stock.

EX-RIGHTS

In connection with quotations the term "rights on" and "ex-rights" are used with reference to stocks that carry the privilege of subscription to additional stock. "Rights on" simply signifies that the stock is selling on a basis and at a price which includes the pro rata of additional stock, while ex-rights indicates that the stock is now selling at a price which no longer includes the value of the additional shares. When rights are "declared" by a corporation it is announced that the privilege of subscribing to new stock is given to stockholders as registered on a

given date, a month, sometimes more, in advance. The stock then sells rights on until this date after which, the new stock having been issued, the stock is sold ex-rights.

HOW RIGHTS ARE USED

AS soon as it is rumored that a corporation is about to distribute valuable rights to its stockholders there is frequently an advance in the price of the stock on the market. On the Curb Market owners of the stock may sell the rights, which are traded in on a "when, as and if issued" basis. Contracts are made agreeing to deliver the rights if they are issued. If they should not be issued the contracts lapse and there is no responsibility either to pay for or to deliver the rights.

When the rights are "declared" by the corporation, and the date of subscribing to the new stock set, trading in the rights on a "when issued" basis starts on the New York Stock Exchange if the stock under consideration is listed. On a previously announced date "warrants" are issued to stockholders setting forth the terms of the privileged subscription.

The Exchange then fixes the date on which settlement of rights sold on the "when issued"

basis shall be made, and after which all rights are delivered "regular way." The final step is the purchase of and payment for the new stock on a date previously announced by the corporation, when the warrant holders must exercise their rights. After this date only the stock, or temporary certificates, on an ex-rights basis are traded in on the Exchange.

USE OF RIGHTS

The old stockholders have a choice of several methods of using their rights. In general, when a privileged subscription is declared, the stock and rights sell at their best price at about the time of the announcement. If the stockholders choose to take advantage of this they need not even wait for the issuance of warrants but can sell their rights on a "when issued" contract. This not only gives them the advantage of a better price than if sold later but enables them to realize the profits at once. The profits, however, are usually not as great as might be realized were the rights exercised and the stock retained, for rights are always issued on a basis that gives the holder a lower than market price on the stock involved.

To overcome the latter objection to selling

rights the stockholder could sell an amount of his stock equal to the number of shares the rights entitle him to. He could then replace the shares with the new stock when issued. He thus receives the full market value of his stock instead of sacrificing the discount which attaches to rights. However, by reducing the number of shares which he holds, before the rights are issued, he also reduces his proportion of rights in the new issue.

OTHER METHODS

A stockholder may exercise his rights and subscribe for the new shares with the purpose of selling them after they have been issued by the corporation. This plan would usually involve the borrowing of money to make the purchase and the payment of interest on the loan. Stocks sold immediately after becoming ex rights do not usually bring their best price, but if not so disposed of, the interest payments would be extended, assuming that the money for purchase had been borrowed or that payments were being made in installments. If, however, the stockholder has purchased the additional stock for investment purposes, such use of rights might prove profitable in the long run.

Another method of disposing of the rights would be for the stockholder to sell short at once the amount of stock for which he has rights and cover the short sale when the new shares are issued. This brings him an advantageous price for his stock and at the same time enables him to receive in full his proportion of the new stock.

DIVIDENDS AND THEIR RELATION TO PRICES

PAYMENT of dividends to stockholders is the primary aim of managers of corporate industry and commerce. For this reason the value of stocks should be measured largely by dividend rates. In general it is, but due to the fact that there is no uniformity among the methods employed for adjusting dividends to earnings, the former are not always an accurate index of value. Particularly among industrial corporations where sudden changes in dividend disbursements are common, the total amount earned may be viewed as of greater importance than the dividends paid. In railroad stocks, where dividends are long established, they constitute a surer index of value. However, financial strength and earning power are more important criteria of intrinsic value of stocks than current dividend rates.

Dividends are usually quoted as a given number of dollars per share, though percent of par

value may also be used. If a company pays six percent on shares having a par value of \$100, the dividend is \$6 per share; if the par value is \$50 the dividend is \$3 per share. In both cases it may be called a six percent dividend. Dividends are usually paid quarterly. A common rule for estimating the value of stocks from the dividends paid is "twenty times dividend." That is, twenty times the dividend expressed in dollars per share. Thus a stock earning \$6 per share should be worth twenty times six, or \$120 per share, on which valuation the dividend would amount to five percent. Other factors, however, must be taken into consideration, such as trend of earnings, character of management and industrial and credit conditions.

KINDS OF DIVIDENDS

Dividends may be paid in cash, in stock or by property or scrip (promissory note), or by a combination of any of these. The usual and preferred form is cash. When cash is paid, the stockholders whose names are of record on the books of the company as of a specified date, after the dividend has been declared, will receive checks for the amount of the dividend on the number of shares they hold respectively. For a fee paid by

the company a large bank or trust company usually acts as agent, and sends the checks direct to the stockholders.

Stock dividends have become very popular and are paid by issuing one share of stock free of charge for each specified number of shares held by the stockholders. A five percent stock dividend would mean that one new share was issued for each 20 shares outstanding. After a stock dividend each share of stock represents a smaller unit of interest in the company, and the price per share is usually lower than the quotation current before the dividend was declared. However, the price per share of the old stock frequently rises on the news that a stock dividend is likely, for the latter represents capitalized surplus reinvested in the business.

"Extra dividends" are amounts sometimes paid to stockholders in addition to the regular dividends. The extra dividend, or "cutting a melon," by its very nature cannot be considered permanent, but usually has a pleasant effect on the market quotation of the stock.

As soon as ownership of stocks is of record in the company books, the dividends thereon accrue to the owner. To prevent any confusion as to ownership at the time the dividend is paid, the

directors of the company paying the dividend announce a day on which the books are closed and the stockholders as of the close of business on that day, will receive dividend checks. On this day shares become "ex-dividend." That is, the stock then sells on a basis of no accrued dividend.

BROKERS' TIME AND CALL LOANS

BORROWING money on some form of collateral for the purpose of conducting business is an accepted practice in the business world. In the stock market, as in any great organized business, huge sums of money are required from day to day for the conduct of exchange activities. Brokers must borrow the money with which to finance the purchase of millions of shares of stock upon which the customers have made part payments (margin), just as manufacturers and wholesale and retail merchants, must borrow money on the forms of collateral typical of their business, to finance the purchase of millions of dollars worth of merchandise bought on part payment plans.

Brokers' loans are of two kinds, call loans and time loans, and the collateral employed is, typically, the securities in which they deal. Call loans are so named because settlement can be called for at any time by the party making the

loan. Time loans are those for which some time is granted for repayment. They are made on a sixty and ninety day, and four, six, nine and sometimes twelve months basis. Both these classes of loans are secured by the stocks and bonds of customers who have purchased them on margin, and securities owned by the firm.

The sources of brokers' loans are for the most part banks, corporations and money brokers. Banks will generally lend up to 80 percent of the market value of the securities offered, depending upon the security itself and the condition of the market. On time loans the rate of interest is fixed when the loan is made and does not vary during the life of the loan. Time loans are always made directly between a banker or money broker, and the stock broker or his firm.

CALL LOANS

Call loans, unlike time loans, have no definite time to run. They are renewable from day to day, and the rate of interest therefore varies from day to day, depending upon fluctuations in the money market. Call loans are usually negotiated at a special "money desk" located on the floor of the Exchange. At this desk the various lenders file notice of the amounts available

for loans and the interest charged and the borrowing brokers give notice of the amounts they require. The desk serves as a clearing house for the supply and demand of loans.

BENEFITS BANKS

The brokers' loan market presents very different conditions from those which obtain in the commercial loan market. Commercial loans constitute the great majority of all bank loans and are therefore the banks' most important consideration. Commercial loans can be re-discounted through the Federal Reserve system, while loans made on securities, except government bonds, do not have this advantage. For these and other reasons banks prefer to make commercial, rather than time or call loans based upon security collateral. The result is that only the excess funds of banks are made available for call loans.

With a great surplus of funds on hand, a condition that is everywhere common at present, the call money market is an outlet for the otherwise unemployed funds of banks throughout the country. The great attraction of the call loan from the banker viewpoint is its ready convertibility into cash. Since the call loan may be terminated at any time and the money returned

to the bank, the funds so employed are maintained in a liquid position and are always available for employment as required to meet the needs of the communities which the loaning banks serve.

THE MONEY MARKET

THE supply of call loan money and the brokers' needs for money have no fixed relation. This is explained by the fact that call loans are used by the banks for emergency employment of excess or unutilized funds. At the very time when funds are most needed by the broker, the banks may have their money employed in other channels. For this and many other reasons, such as the movement of gold, general industrial and commercial needs, business conditions, etc., the call loan interest rates fluctuate widely from day to day and even minute to minute.

As the loans are renewed each day a new rate of interest "the renewal rate" is established every morning. The money desk at the Stock Exchange determines this rate. It has available a record of the loans and rates of the past, the shares of stock sold and quotations, the use and availability of funds, the estimated demand and supply for the current day, opinions of the large

lenders and borrowers and other data affecting the money market. This information is reviewed by a committee of experienced men, and a rate which seems equitable to all concerned is fixed. The rate is then posted at the money desk at about 10.40 A. M.

MONEY AND PRICES

Opinions vary as to the effect upon stock prices of cheap or dear money as represented by call and time loan interest rates. The general attitude, however, is that low interest rates tend to have a bullish effect on the market, stimulating trading and causing prices to rise; whereas on the other hand, tight money and high rates tend to depress trading and lower prices. The records seem to indicate that the seasonal fluctuations of interest rates over a number of years did not have a corresponding effect on stock prices. In a very active, strong "bull" market, interest rates seem to have little effect. But in a quiet and more sensitive market money rates do unquestionably affect trading and prices.

The above has under consideration the effect of ordinary fluctuations of money. When money advances to a very high point there is of course no question whatever about the effect on the

market, though even then in a very intense bull market high rates may be disregarded. The Federal Reserve system has lately attempted with considerable success to exert control over the stock market and check abnormal speculative activity through high interest rates. Money, however, is only a secondary factor in its effect on the market, and with the funamental conditions of the market sound, has only a restricted influence on price, in the long run.

DIVERSIFICATION

Just as banks prefer to diversify the risk of their loans by distributing them among many borrowers, the brokers prefer to borrow from several sources to avoid the risk of having their loans called at the same time. In making loans the banks prefer "mixed" collateral, consisting of railroad and industrial securities in about equal proportion. Loans on industrials alone, however, are quite common and sometimes more desirable than mixed collateral. The banks want collateral that is free of violent fluctuations, but that nevertheless has a ready market. For this reason high priced stocks with wide fluctuations are not considered the most desirable collateral.

BROKERS' INTEREST CHARGES

IN addition to the commission paid the broker for his services, and the Federal and sometimes State transfer taxes of about two cents per share of stock, the marginal customer pays interest charges upon the money loaned to him by the broker.

After opening an account with a brokerage firm the customer may be buying and selling frequently. Sometimes the books will show the customer indebted to the commission house for money borrowed to purchase securities on margin; that is, he will have a debit balance. Again they may show that the customer has a deposit with the firm in his favor, or credit balance. If he is very active in the market, the balance will be changing every day or even many times a day. When he owes the house money, he pays interest upon it, and when at times his account shows a credit balance, he collects interest. Interest is computed on the balance as it stands at the end of each business day.

COMPUTING INTEREST

A customer's balance may show a debit of $5,000 on January 7. On the next day he may sell $3,000 worth of stock, and on January 10 buy stock worth $2,000. He would then pay interest on a debit balance of $5,000 for one day, on $2,000 for two days and on $4,000 until the next deal changed the balance.

In figuring the interest, a flat rate of six percent is usually employed for credit and debit balances alike. At the end of the month the difference between the two shows how much is due either the broker or the customer, on a six percent basis. This amount is then adjusted to correspond with the actual interest paid or charged by the broker. To illustrate: At the end of the month the interest on debit balances may amount to $96 and on credit balances $40 at six percent. If the broker charges six and one-half percent and pays three percent, the corrected interest charges will be $104 and $20 respectively. The customer's account will then be charged the difference, $84.

The rate of interest charged by the broker is derived by averaging the rates that he has paid on all his borrowed money. For managing the

loan a charge of ¼ to ½ of one percent is added to this. Thus, if the broker finds that he has paid on the average six percent for his money and a service charge of one-half percent is added, the rate to the customer would be six and one-half percent.

The interest rate paid by the broker on credit balances takes into consideration a number of competitive factors unnecessary to detail. However this rate may not be used by the different houses to obtain competitive advantages. A special rule in the Constitution of the Exchange prohibits its members from unfair competition by the charge of "special and unusual" rates of interest. Such manipulation would be viewed by the Exchange as equivalent to a violation of its commission rules.

IN THE SHORT SALE

When a short sale is made the customer usually neither pays nor receives interest. In the case of a short sale the broker has to borrow the stock involved which must be delivered on the day following the sale. He does this by negotiating a loan of the stock from some one who has it on hand, depositing cash with the lender in the amount of the market value of the stock as

security. This money is obtained through the sale of the stock to the buyer in the deal.

The lender of the stock is in the position of having put up security for a money loan which can be terminated at any time by the broker's return of the stock. The lender pays interest at current rates to the broker on the amount deposited. This interest the broker retains, and as it reimburses him for any special services called for by the transaction, no interest is entered against the customer's account.

THE NEW YORK STOCK CLEARING CORPORATION

ONE of the real mysteries of the stock market, for most people, is the manner in which 3,000,000 to 5,000,000 shares of stock can change hands daily without confusion, and with mistakes a rare occurrence in the enormous total of transactions. The greatest factor in obtaining order and accuracy, and in reducing to a minimum the number of operations necessary for handling this daily cyclone of buying and selling orders, is the work of the Clearing Corporation.

The Clearing Corporation, in its work of stock clearance, does for the Stock Exchange what bank clearing houses do for the banking world. But in addition to clearing money the Clearing Corporation must also handle about 425 different issues of stocks.

EARLY ORGANIZATIONS

The first complete system of stock clearance was established in Frankfort in 1867. In this

country stock exchange clearing systems made their appearance about 20 years before the New York Stock Exchange established its system in 1892. Previous to this time all efforts to establish a clearing house in connection with America's greatest exchange had failed, due chiefly to the fear that such a system would reveal the brokers' business secrets to the clearing house clerks.

Before the stock clearance system became operative the seller, under the rules of the Exchange, was required to compare his record of transactions with that of the buyer, at the latter's office not later than 4 P. M. on the day of the transaction. In making settlement each house would have to send out the securities to all the other houses with which it had traded the day before and receive securities from all the houses from which it had bought. This direct, personal delivery system was very wasteful of time and labor, and as volume of trading increased proved very inadequate.

Settlement between the different houses was by certified check. To obtain temporary credit for the conduct of their daily business the brokers employed overcertified checks, and obtained "morning loans," which were arranged every morning before the Exchange opened, and for

which the broker's note was taken with his promise to deposit collateral immediately upon its receipt.

All this lead to the tieing up of an enormous amount of bank credit. Finally the banks began to restrict the amount of overcertification and other temporary loans and insisted that the brokers find some method of reducing their credit requirements. This resulted in the establishment of the stock clearing system, and the New York Stock Exchange Clearing House began operations on May 17, 1892, as a part of the Exchange organization. This stock clearing house served satisfactorily until about 1913 when volume of business had again increased so greatly that the banks once more insisted upon relief. A system was needed that in addition to handling stocks would also clear money payments on stock balances and care for the transfer of collateral loans.

PRESENT CLEARING CORPORATION

In December, 1918, the Governing Committee of the Exchange organized a new corporation, distinct from the Exchange, called the New York Stock Clearing Corporation. This corporation was capitalized with 5,000 shares of

$100 par value, under the control of the Governing Committee. The old clearing house was continued as efficient in its work of the clearance of securities.

However, a new organization was necessary for the clearing of money balances and loans. There was now two kinds of work to be done, and the clearance of stock would be necessary before money balances could be cleared. To meet this situation the old clearing house was made the Night Clearing Branch, and the new mechanism set up to clear money balances and loans was named the Day Clearing Branch. This organization constitutes the present Stock Clearing Corporation.

WORK OF THE STOCK CLEARING CORPORATION

BETWEEN 1,100 and 1,200 stocks are now listed on the New York Stock Exchange. Of these, 425 are now cleared through the Night Clearing Branch; that is, cleared for stock. All the listed stocks and bonds are cleared through the Day Clearing Branch for money. The night branch favors active stocks, for in these the greatest number of transactions occur, and consequently their clearance effects a greater saving of time and credit than would be the case with inactive stocks in which there were few deals. The work of the night branch is such that it cannot handle the volume that can be taken care of by the day branch. A special rule permits the Clearing Corporation occasionally to handle for its members stocks not regularly cleared.

It is the purpose of the Clearing Corporation to minimize the number of steps involved in trading in the cleared stocks, and to reduce as far as possible the brokers' requirements of bank

credit and money. To illustrate the manner in which this is done, assume that a broker X, sells 100 shares of a stock to broker Y at 90; and that Y then sells them to broker Z at 93. Usually X would in this case know nothing about the deal between Y and Z.

In the Night Clearing Branch where stocks are cleared, however, the three transactions are brought together, and X is directed to deliver the 100 shares of stock directly to Z. This automatically settles Y's contracts to buy and sell, which in effect cancel each other, and makes it unnecessary for him to compare records and receive and deliver the shares himself, and avoids the need for arranging loans to handle the transaction.

THE NIGHT CLEARING BRANCH

Now to simplify its operations the night branch arbitrarily fixes at the end of each business day a "delivery" or "settlement" price. For purposes of delivery the closing bid price for the day, excluding fractions, is usually selected. Payment for stock balances delivered is based, not upon the actual prices at which X, Y and Z bought and sold the stocks, but upon this selected price. Any inequalities that may

exist between the delivery price for a stock and the actual price at which it may have been bought or sold, are adjusted with the Night Clearing Branch by check or draft as the case may require.

To return to the transactions among X, Y and Z: since in the two deals the stock sold at different prices there is still a money adjustment to be made after the stock clearance as indicated above. As Y sold the 100 shares at a three point advance, he had $300 profit. X sold the shares for 90, and Z bought them at 93. Therefore when X delivers the shares to Z he will receive, if he collects payment from Z, $300 more than he is entitled to.

These cash balances are settled in a very simple manner, and are handled in the same way as settlement of the difference between the delivery price and the actual price discussed in the preceding paragraph. Y makes out a draft for $300 against the Clearing Corporation to secure the balance due him, and X sends his check for $300 that he has received in excess of the amount due him. The clearing branch can then pay the draft with the check. It is apparent that the checks and drafts received by the Clearing Corporation always cancel each other. In the above it has been

assumed for simplicity that the delivery price was the same as that at which Z bought his shares.

THE DAY CLEARING BRANCH

However, the Day Clearing Branch, which clears money or its equivalent in the form of "credits" and "charges," enters at this point. Instead of collecting the money from each member as deliveries are made, as X was assumed to above, receipts are taken up that acknowledge the delivery and amount. When deliveries have all been made, a final receipt showing the debit or credit balance for the day, is made out by each clearing member, who then forwards to the day branch either a check for, or draft against the Clearing Corporation for the balance indicated. These checks and drafts must correspond with the clearing records of the day branch.

NEGOTIABILITY AND TRANSFER OF STOCK

WHEN one considers that a 5,000,000 share day on the Stock Exchange means the buying and selling of $500,000,000 worth of interests in the business of the country, and that this enormous trade is based upon the negotiability of the securities dealt in, it is an interesting circumstance that, under the common law, stock certificates are not negotiable.

The courts, however, allow the use of an assignment and power of attorney to transfer, which is printed upon the back of the stock certificate, or on a separate paper attached to the certificate, when used. When this assignment is properly endorsed it carries full legal title in most states, and the certificate can at any time be transferred again by reassignment. Thus stock certificates can pass freely from hand to hand without actual transfer on the books of the corporation in each instance.

TRANSFER AGENT AND REGISTRAR

The stock certificate is evidence of the ownership of a specified number of shares in a certain corporation by the person or firm named in the certificate. A record of all the stockholders is kept on the books of the corporation, the names being entered as the certificates are issued, together with the number of shares and any other information essential to the record. So far as the corporation is concerned only those whose names are of record on the stock ledger are entitled to the rights and privileges attaching to ownership of its stock.

For this reason, when stock is transferred the person to whom it is delivered, unless he intends to sell again immediately, must send the certificate to the corporation or the corporation's authorized transfer agent. A new certificate will then be made out in the name of the new owner, and after receiving the corporation registrar's certification, is forwarded to the owner. The registrar keeps the record of stockholders and checks all certificates. His certification signifies that there has been no fraud, overissue or counterfeiting.

If the owner of a stock certificate sells only

part of the shares for which it is made out, he endorses the certificate, showing the number of shares to be transferred to the name of the buyer, and forwards it to the transfer agent, who makes out two certificates, one for the new and one for the old owner, each for the agreed number of shares. Proper entries are then made in the stock ledger, and the certificates are registered and sent to the respective owners.

THE DETACHED ASSIGNMENT

The "detached assignment" is identical in form with that found on the reverse side of stock certificates. It is, however, on a separate paper, and therefore must include an exact description of the stock certificate to which it refers. When properly filled out, and accompanying an unsigned deliverable stock certificate, the detached assignment has the same force as that printed on the certificate.

This form of assignment has some advantage over endorsement on the certificate itself. In sending stock certificates through the mail, unless insured, there is always the possibility that if the certificate is assigned it may be lost or fraudulently used. It may, however, be important to have the addressee receive the certificate

in deliverable form. By sending a detached assignment, properly executed, in one enclosure, and the unsigned certificate in another, the addressee will upon receipt of the two be in position to transfer the security or employ it as collateral. Should either of the enclosures be lost in transit no harm would be done, as each would be valueless without the other.

PROTECTION OF SECURITY CERTIFICATES

QUOTING from an address delivered by Mr. E. H. H. Simmons, President of the New York Stock Exchange: "When it is realized that the aggregate listings on the Exchange today (March, 1926), exclusive of U. S. Government Bonds, amounts to over $50,000,000,000 (aggregate list as of August, 1928, amounts to $100,788,319,517), it will be readily appreciated that great care must be exercised against forgeries of listed stock and bond certificates. The Federal Government, in order to safeguard American paper money against the forger, was compelled to establish its Bureau of Printing and Engraving.

EXCHANGE RULES

"The New York Stock Exchange has not gone as far as to similarly engage directly in the business of printing and engraving security certificates, but it has insisted that only engraving companies officially approved by it can prepare

stock and bond certificates which are to be listed on the Exchange. Elaborate technical precaution must be taken against the overprinting of listed security issues. It is also required that each certificate shall be printed from two overlapping steel plates, in order to prevent forgers making photographic imitations of the certificates. The Exchange also requires that certain outstanding facts regarding the given security issue must be printed plainly on the face of its certificates.

"The Stock Exchange requires each company desiring to list its securities on the Exchange to maintain in the Borough of Manhattan, New York City, two offices, one for the transfer and the other for the registry of the securities in question.

"A corporation may prefer to maintain its own transfer office, or it may appoint a trust company to perform the work for it. But no corporation can act as its own registrar nor can the same trust company act as both transfer agent and registrar of the same security issue. Thus the registrar acts as a check on the transfer office or agent, and eliminates the danger of overissuance of stocks or bonds."

FORM OF ASSIGNMENT

The Exchange requires the following blank form of assignment and power of attorney on the back of a certificate or on an attached form: For value received ....hereby sell, assign, and transfer unto ....

....

.... shares of the capital stock represented by the within certificate and do hereby irrevocably constitute and appoint .... attorney to transfer the said stock on the books of the within named company with full power of substitution in the premises.

Dated ....19....

....

Presence of

....

Notice: The signature to this assignment must correspond with the name as written upon the face of the certificates in every particular without alteration or enlargement or any change whatever.

The New York Stock Exchange Committee on Securities has adopted rules to meet all ordi-

nary situations of assignment, providing a definite method for each case. It is customary for brokers to guarantee the execution of the assignment of securities received from their customers. Where this is not practical the assignment should be guaranteed by the client's bank or acknowledged by a notary public.

The above methods have been so successful in the elimination of counterfeiting, forgery and overissue that the idea of risk due to these possibilities never even occurs to many people.

CONVERTIBLE SECURITIES

WHEN issuing various forms of securities, corporations often make them exchangeable under certain conditions for each other, or for stocks, notes or bonds of a previous or future issue. Bonds may be made convertible into preferred or common stock, or stock of one kind or another convertible into bonds, or one kind of stock convertible into another kind. The combinations are endless, depending only upon the aims of the corporation in arranging the convertible feature. The conversion privilege has been applied to virtually every kind of security providing a very wide range of conditions under which the privilege might be exercised.

There are a few general conditions, however, that enter into conversion of securities in most cases. A price is fixed at which conversion may be effected and arrangement is made for the adjustment of fractional shares if there are any. A time is stated when the issue may be converted.

This time may be limited, it may be for the life of the issue, or it may become operative at some future date.

There is usually a statement concerning the disposition of accrued interest or dividends, and in the case of bonds, the corporation may reserve the right of redemption before maturity. In the latter instance the holder may be deprived of a valuable conversion privilege, but he usually is given the opportunity to convert up to or within a limited time of redemption.

PURPOSE OF CONVERTIBLES

Convertible securities are issued for many different reasons. One of the most common of these is to enhance the attractiveness of bonds or preferred stock by attaching to them, through the privilege of exchange, the higher potential earning power of the more speculative securities of the corporation in the event of future prosperity and expansion. Convertible securities will bring more in the market because of this offer in a share of future prospects. The holders of such securities can to an extent capitalize possible future earnings. When the market for bonds or preferred stocks is quiet, the convertible feature

will thus often stimulate movement of such securities.

TO STIMULATE DISTRIBUTION

On the other hand when business is quiet and stocks are in little demand, about the only way to raise money may be by sale of bonds. In such a situation, to prevent a too high ratio of bonds to stock in the capital setup, the bonds may be made convertible into preferred or common stock. Or stocks may be made to move in such a market by making them exchangeable for bonds. This relieves the uncertainty that may be felt concerning speculative securities since they can be converted at choice into bonds. However, the conversion of stock into bonds is usually at the option of the corporation, for stockholders might in a time of financial stringency rush for the bonds and thus increase fixed charges and enlarge the burden of the company just at the wrong moment. Preferred position of creditors would also be disturbed.

A modern method of enabling investors to share in the larger earnings of the corporation is by means of warrants attached to bonds or preferred stock. The warrants offer the security holder the right to purchase stock at a given

price during a stipulated period of time. After a given date warrants can usually be detached and sold, and they are traded in by many houses in New York City.

USE OF CONVERTIBLES

THE conversion privilege becomes valuable to the holder when the security for which he has a right to exchange his holding increases in market value beyond that of the convertible security. That is: given a $1,000 bond convertible at $100 par value of the bond for $100 par value of the stock, and leaving interest and dividend out of consideration, nothing would be lost or gained by the exchange. Ten shares of stock worth $1,000 would be owned instead of a $1,000 bond. But if the stock were to advance to $120 then the conversion privilege obviously becomes valuable.

While most convertible issues are exchangeable par for par as above, others are convertible at different ratios. The bonds may be made convertible at $110, which means that $110 of the par value of the bonds must be exchanged for each $100 par value of the stock. This relation or ratio between the two is called the "conversion ratio." There are, of course, an infinite

variety of ratios employed, to suit the particular purpose of the issuing corporation.

WHEN TO CONVERT

The operator in stocks and bonds, if interested in convertibles, must keep informed of the time at which such securities may come upon the market, and it is also necessary to know the beginning and expiration of the conversion period. With this information and the conversion ratio at hand, prices on the market are then watched, and the "conversion point" determined, that is the point at which conversion becomes profitable.

The conversion point may be computed to get the price at which the bond will be at a "conversion equivalent" with the stock, or in other words the point at which the value of the bond and stock will be equal. This must take into consideration the fact that these two types of securities are quoted differently. Stocks sell "flat," that is their price includes a dividend that has accrued since the last dividend date, while bonds are quoted "with interest" or "and interest," signifying that accrued interest must be added to the quoted price.

COMPUTING CONVERSION POINT

If a bond is convertible on the basis of $110 par value of bonds for $100 par value of stock, and the securities are quoted at par on the market, it is clear that the conversion equivalent would be reached when the stock became worth $110 ex-dividend, and the bond quotation remained unchanged.

Now if in the middle of the dividend period the above bonds were quoted at $102 and the stock at 112½, it would first be necessary in computing the conversion equivalent, to eliminate the accrued dividend from the stock quotation so that it could be compared with the bond quotation. Assume that the stock paid 10 percent and the dividend had accrued for 45 days. The accrued dividend then would be 1¼. Subtracting this from $112½, leaves $111¼. Evidently $111¼ would be in the same proportion to the conversion equivalent as $110 is to $100 (the conversion ratio). Working out this proportion it is found that the price at which the bond will be at conversion equivalent with the stock is 101⅛. From which it appears unprofitable to convert at the moment since the bonds are

bringing more than the conversion equivalent price on the market.

For convenience in finding the conversion equivalent of any bond when the stock into which it may be converted is quoted at a certain price, exclusive of dividend, conversion tables have been prepared. These tables simply give the prices of the stock with the bond equivalents opposite, all worked out in advance on the basis of the conversion ratio in question.

PRICE MOVEMENTS

CONTINUALLY changing prices are of course, what make the stock market. Why do prices change, what fundamental causes underlie this unceasing ebb and flow of prices and how can price changes be foreseen are questions that have engaged the best minds of the time. Endless averages and indexes have been devised as guides to price, and elaborate graphs and tables prepared. A real understanding of prices and price movements can be obtained only through long and often very dry study of charts and statistical tables, and earnest laboring with abstract conceptions and technical terminology. Only the elements of the subject can even be touched upon here.

The difference between price and value must first be recognized. Price refers to the current market appraisal of a security, and may show great variation even in the course of a day. Value has reference rather to the real worth that is established by the income producing record and

asset value of a security. In the long run prices tend, in spite of wide fluctuation, to correspond with true worth. However, one of the fundamental causes of changing prices is changing values, and many times when the wide swing of prices has settled it is discovered that changed value has been accurately foretold.

FACTORS EFFECTING PRICES

Among the many factors responsible for price fluctuations that may at times become enormous, the following may be mentioned: condition of the money market, business depressions and financial panics, manipulation of prices, rising cost of living and other factors affecting the general price level over periods of some duration and, most important in the case of individual securities, the financial condition and earning power of the corporation.

One of the most important of all the factors affecting prices is the condition of the money market. The enormous credit required in stock market operations brings the money market into the most intimate relationship with these operations. A large part of all the stocks held are bought and carried on margin, that is, on money borrowed by the brokers on security collateral.

In important financial centers a very large proportion of the total credit outstanding is of this character.

MARGIN CREDIT

Securities purchased "regular way," which covers by far the greater number of transactions, must be delivered the next day. The seller of the securities will not deliver them until payment is made, while the buying broker at the same time must have his securities to deposit as collateral for the money with which to buy them. To bridge this gap the banks make various forms of temporary loans to the brokers, with the understanding that the security will be deposited immediately upon receipt.

The far larger portion of money used in marginal transactions is of the call or demand loan variety. Such loans are one day loans, subject to termination at the will of either party. In most instances however, they are renewed from day to day. If, though, a stringency in the money market necessitates the calling of loans, and the calls cannot be met promptly, the sale of the collateral securing the loans may result in a wide decline of prices of the leading speculative stocks.

SIGNIFICANCE OF BANK STATEMENTS

THE close relationship between the security market and credit conditions was considered in the previous section. Banking conditions are studied with a view to obtain the outlook for the supply of credit and its effect on the business community, and the probable supply and cost of money to the purchaser of securities. Bank statements are the common source of such information.

The Federal Reserve Board makes a report of each Federal Reserve Bank, and a consolidated report of the system each Friday morning, giving the conditions as of the close of business on Wednesday. The Board used to publish a report of the condition of several hundred member banks throughout the country, but their condition as a whole is now indicated by items included in the present reserve system statement.

The associated member banks of the New York Clearing House make a report of condi-

tions each Saturday afternoon. The report gives the actual condition of the leading New York City banks as of the close of business Saturday noon, and also the average conditions for the week.

IMPORTANT ITEMS

The item of greatest importance in the Federal Reserve System statement is "total bills and securities." Of interest also is the ratio of reserves to deposit and note liabilities, and the increase or decrease in volume of bank note circulation.

The items of interest in the report of the members of the New York Clearing House are reserves, deposits, and the loans, discounts and investments. The Federal Reserve report because of its comprehensive showing of credit conditions throughout the country, is regarded as the best indication of the credit supply for security market purposes.

SIGNIFICANCE OF ITEMS

Total bills and securities represents the total amount of credit extended by the reserve banks in the form of loans and investments. The fact that it reveals from week to week the relation

between the country's supply of and demand for funds makes it very significant. Total bills and securities increases when demand for funds is heavy relative to supply. When the demand declines with respect to supply total bills and securities decrease. This adjustment is even more sensitive to changing conditions than interest rates.

The item of "surplus reserves" on the New York Clearing House statement was formerly considered of great importance by the financial community. But since the advent of the Federal Reserve this has been supplanted by the total bills and securities item in the weekly statement of the latter. When the reserve held by banks nears or falls below the legal requirement the banks must undertake to strengthen their position. Ordinarily this is now readily accomplished through the Federal Reserve, by rediscounting operations. Because of this simplicity of adjustment, surplus reserves no longer have the old importance. When total bills and securities are low money is apt to be easier and there is no fear of heavy calling of loans. If this item is too small, however, it may indicate little demand for money and business depression.

The loan and deposit items also have an im-

portant relation to business conditions. During a business depression period an increase of cash holdings and deposits may be expected as compared with loans. On the other hand, during a period of prosperity and expansion, a very large increase in loans and deposits has nearly always indicated that fundamental conditions were becoming unsound and the time for caution had arrived. Over-extension of credit, as indicated by abnormal increase of loans as compared with deposits, has been one of the principle causes of violent stock market depression in this country.

The most satisfactory bank statement is one that in the light of past experience and records, shows a normal relationship between the loan and deposit items and a safe reserve.

FINANCIAL PANICS AND BUSINESS DEPRESSION

THE violent periodical financial panic of former years, the last of which to occur with all the old distressing consequences was that of 1907, is probably a thing of the past. The control and influence of the Federal Reserve System, the coöperation of the nation's great banks to regulate credit conditions, and the stabilizing effect of the organized stock market and the huge investment trusts which prevent the wild dumping of securities that formerly occurred, are all factors that modify the conditions that once led invariably to business and financial upheaval. However, though the days of financial panics in the old sense may be of the past, there are still recurrent periods of general business depression.

Formerly panics and the subsequent periods of business depression were regarded as isolated occurrences. The cause was usually attributed to some purely local and contemporary condi-

tion or circumstance, such as the failure of a great business concern, a big crop failure or extended strikes or lock-outs. So long as these crises were viewed as separate events, each having its own peculiar cause, it is not surprising that little progress was made in the direction of preventing similar disasters in the future. Each crisis was presumed to have its own explanation, which would not necessarily have any application to the next.

BUSINESS CYCLE

This view of the matter has in later years undergone a complete change. It is now realized that these recurring periods of business depression are but one phase of a chain of events occurring in regular sequence and definitely related as to cause and effect. This succession of events is called the "business cycle."

While the order in which the succession of changes—depression, revival, prosperity and crises—occur, is well known, and much has been learned of cause and effect within this round of events, the fundamental causes of the constantly operating cycle are a matter of great controversy and many theories, and the time at which a crisis will occur and the duration of the various phases

of the cycle can be predicted only in very general and vague terms.

However, the knowledge that has been gained as to the nature of the events that occur during the operation of the cycle makes it possible to exercise some control over the conditions that lead into a crisis, and lessen the bad effects of these changes upon business and society. When the conditions that usually precede severe liquidation are everywhere in evidence, the more important banks and stronger and wiser individual business concerns take steps that experience has shown may prevent or at least mitigate the more disastrous consequences.

CONTRIBUTING CONDITIONS

While numerous theories, from dirty winter weather to the complexion of the sun, have been advanced in explanation of crisis and depressions, these still remain, so far as ultimate causes are concerned, largely unexplained. It may be stated that two conditions are important causal factors. When the crash comes there is always a great excess of supply of goods over demand and the credit system of the country is far overextended.

When these conditions begin to put in an ap-

pearance it is time for the individual enterprise to pursue a course with respect to production and distribution, designed to prevent severe suffering during the possibly approaching crisis and ensuing depression. At such time the Federal Reserve System through its centralized control, and all the other great bank organizations of the nation through coöperation, regulate credit conditions to meet the situation and enable solvent business men to secure sufficient credit accommodation to weather the storm.

THE BUSINESS CYCLE

THAT which can be foreseen can be forestalled. If it is known from experience that a certain series of events will lead to disaster, the disaster may be evaded or lessened by applying corrective measures as soon as the recognizable signs appear.

A study of changing business conditions extending over many years reveals a certain order or sequence in these fluctuations. There is an unceasing round of business depression, revival, prosperity and crisis. This sequence of events is called the "business cycle." The successive events of the cycle vary in intensity and duration, but the order in which the major phases occur is unvarying.

STUDY OF THE CYCLE

From the record of the past certain conditions in the business world can be recognized as indicating the phase through which that world is passing at any given time. From the record also

the next phase to occur and the events leading up to it can to an extent be forecast. Measures can then be taken to ward off disaster if the phase is leading into crisis and depression, or restraints and curtailments may be gradually lifted if business revival and prosperity are ahead. No point of demarcation between these recurrent events can be established or accurately predicted, but the general trend of business can be noted and policies adapted to fit the trend.

Because of the intelligent interpretation of events, and the partial forecast that it makes possible, the painstaking, analytical study of the business cycle becomes very important. Effort is constantly being made to interrelate more and more closely events throughout the cycle, and to determine the character of the economic forces that cause the unending round of events. The business cycle is still far from being understood, particularly in the matter of fundamental causes, but sufficient has been learned to greatly mitigate the evils of these periodical swings.

PHASES OF BUSINESS CYCLE

There are four general, successive phases of the business cycle: depression, revival, prosperity and crisis. Following the crisis with its se-

vere liquidation a period of widespread business depression occurs. The early stage of this period is marked by a general decline in prices and orders, reduction or temporary cessation of new building and industrial installation and extensive unemployment. These conditions result in the low price level, low business and labor costs, and, as loans are liquidated and reserves accumulate, low rates of interest, that are identified with the close of a period of depression. The logical consequence is high managerial and labor efficiency, low material and equipment costs, narrow profit margins and keen competition, and the development of an excellent market in which to buy.

In such a situation the elements necessary for recovery are apparent. Exhausted supplies and the inviting market create an increasing consumer demand. Increased production is facilitated by low costs and low interest rates. The volume of trade enlarges rapidly and speculation in the securities market is renewed. Commodity prices rise, bank clearings increase and the demand for money results in the increase of interest and discount rates upon loans. The revival is well advanced.

The latter conditions are characteristic of

prosperity and the third phase of the cycle is entered. During this period trade and building are booming, new enterprises are launched, a huge volume of production develops, wages are high and unemployment at a minimum, prices and profits are high and speculation very active. Unlimited optimism prevails. There follow high cost of business operations and of living, declining production efficiency, over-tension of credit, and stringency and high rates in the investment market, falling demand for goods and over-supply of high-cost stocks.

With decreased demand and purchasing power, accumulating stocks of goods, and undermined business credit the time is ripe for one of the weaker links in the business structure to fail and precipitate the crisis and liquidation.

STOCK MARKET MANIPULATION

MANIPULATION is commonly understood to be the planned buying and selling of a security for the purpose of artificially creating a price at which the man or group of men (pool) behind the movement can take a profit. The operation may be either on the bull or the bear side of the market.

Though the term is usually employed in a condemnatory tone manipulation may be legitimately used. An instance of this is the procedure commonly employed in launching a new issue of stock on the market. It is very desirable from the viewpoint of the issuing corporation, its stockholders and the underwriters to stimulate interest and confidence in the stock, and maintain a fair price level for it until it is sufficiently strong to weather the seasoning process of the open market.

LAUNCHING NEW ISSUE

This is accomplished by placing orders to

buy or sell the security "on a scale down" or "on a scale up."

To illustrate: A syndicate manager might give orders to buy 1,000 shares of the stock at one point below par, another 1,000 at two points below, and so on down to five points below; and order at the same time the sale of 5,000 shares at one point above par, another 1,000 at two points above, etc., up to five points above par. This would accommodate any investor who desired either to buy or sell the new security, and would tend to maintain the price near par. "Scale orders" so used are legitimate and constructive if the price fixed upon is a fair one.

Conditions favoring manipulation are a major advance or a major decline of the market, easy credit conditions and a large floating supply of the stock selected. Manipulation is usually conducted with the trend of the market. In a strong bull market the best condition exists for a pool to distribute its stock at a price far above its intrinsic value, while in a bear market the pessimistic frame of mind of the public is in line with the intention of the pool to buy in the needed stock at a very low figure. Unless there is a generous floating supply of stock, manipulation is difficult or impossible, for buying will run the

price up sharply, and operations cannot be sufficiently spread to conceal the intention of the manipulator.

METHODS OF MANIPULATION

The "wash sale" is one of the oldest manipulative devices. It consists of the sale and purchase of a security by the same party; a confederate, who incurs no financial obligation, buys in the stock at an agreed price. The object of the purely fictitious transaction is to deceive unwary buyers into taking the stock at artificially high prices. Wash sales are prohibited by every reputable exchange, and the expulsion of any member involved in such a transaction is provided by the rules of the New York Stock Exchange.

Another form of manipulation, and that most commonly employed at present, is known as "matched orders." In this transaction the manipulator or pool manager places simultaneously a number of orders, both to buy and to sell, with different brokers. The purpose may be either to distribute stock at as high a price as possible or to accumulate stock at an artificially low price.

If the purpose is to unload stock, the decline in price that would result from steady selling is checked by the buying orders placed at the same

time. The artificial activity in the security, too, will attract attention to it and encourage outside buying that will hold up the price. The manipulator sells gradually more than he buys, taking his profits as he can, while the operation extends perhaps over many weeks or longer. When accumulating stock the operation is simply reversed and the market artificially hammered down.

The New York Stock Exchange rules prohibit matched orders. However, as the different brokers may be acting quite innocently, and execute their orders on the floor of the Exchange in the regular manner under binding contracts, it is difficult to enforce action against matched order transactions.

Accompanying manipulation there is often the circulation of false information, such as the issuance of fraudulent or deceptive reports and the spreading of these, together with false "tips," rumors and news through the various news agencies. Here again, the Exchange strictly prohibits such practices among members, but enforcement of rules among members will not prevent the use of such methods by outsiders.

TECHNICAL POSITION OF THE MARKET

ALL of the conditions affecting the stock market situation from day to day, as distinguished from the long-time fundamental factors, constitute the "technical position" of the market. The technical position is said to be strong when the market readily absorbs stocks and good prices prevail with the trend toward advance. The technical position is regarded as weak when there is a large floating supply of stocks on the market with little demand and declining prices. Just between bears, presumably, these terms are reversed.

FLOATING SUPPLY

The "floating supply of stocks" refers especially to those securities in brokers' hands for short turn speculation. It is always overhanging the market for distribution and is thus a constant menace to the price level. If an unusually large amount of buying on margin occurs with respect to the normal floating supply of a given stock or of the market in general an "overbought"

condition is said to exist. Such a situation makes for a weak technical position, as a reaction may be expected momentarily when the bulls will rush to unload. An "oversold" market exists, on the other hand, when there is an unusually large short interest in the market. Such a condition favors a strong technical position, for when the bears begin to cover their short sales they influence a rally.

Other conditions tending to make a strong technical position may be mentioned. A large number of stop loss orders just above the market, particularly if the market is oversold, will influence an advance in prices as the stops are reached. After accumulation in a period of low prices stocks are usually held by big and experienced investors. The stock has changed from weak to strong hands that will hold it and operate for the expected advance. Pool manipulation of a given stock for advance in price may create a strong technical position for that particular stock, as, in strong hands, public buying is pretty certain to be induced.

WEAK TECHNICAL POSITION

Some other factors influencing a weak technical position are:

The existence of a large number of stop loss orders just below the market when the market is overbought. A decline will catch the stop orders which then become orders to sell, and as successive stops are uncovered additional decline is influenced.

Bears, informed of or suspecting such stop orders, may uncover them by forcing declines through short sales.

When stocks that accumulated in strong hands during the prevalence of low prices are distributed they pass back to weaker and less experienced ownership. The experienced element withdraws its support and becomes interested in low prices that will favor re-accumulation. With the public overbought and strong interests favoring decline the technical position is weak.

Any of the above conditions making a strong technical position may exist in a market that is fundamentally weak as the technical position of the market is a matter of temporary conditions that may not at the moment correspond with underlying factors. Bears, for example, aware of the fundamental weakness may become oversold, and forced by the bulls to cover their sales, cause a rally in prices. Similarly a weak technical position may occur in a market fundamen-

tally strong. However, fundamental conditions should always be considered in connection with the technical position of the market, as the great underlying trend may at any time upset the market situation of the moment.

THE CORNER

WHEN an individual or group of individuals acting in concert is in possession of the control of the stock of a given corporation the situation is known as a "corner." A corner may come about naturally; that is, such control may occur in the course of ordinary market operations without any deliberate planning.

On the other hand a corner may be the result of deliberate manipulation of the market to obtain control. It is the latter type of corner, though manipulation may occur also in the former after control is discovered, that has caused some of the most violent price upheavals in the history of the stock market, and contributed more to unpopularity of the market than perhaps any other single factor.

OBJECT AND METHODS

A corner might be desired for the control of the affairs of a corporation, or the object of a manipulated corner may be solely large and

quick profits, with no regard for the affairs of the company involved. Such profits are only possible through the existence of a short interest in the stock. Otherwise those in possession of the corner would simply have to sell in the regular way at market valuation or continue to hold the stock. But with a large short interest in the stock, and no way for the shorts to cover except through purchase from the corner crowd, an extortionate price can be obtained.

The operator of a corner obtains all or nearly all of the shares of a given issue with the intention of delivery to short interests. To assure a short market for the stock he induces heavy short selling in the security by manipulation of the market for this purpose. He may attract the attention of his bear victims by wash sales, apparently bringing unjustifiably high prices, or employ other methods to create opinion that the stock is due for decline.

The whole operation is, of course, conducted with greatest secrecy. By the use of matched orders the impression of a normally active, continuous market is produced. Those who sell short depend upon a continuous market for borrowing and later purchasing the stock for delivery. The operator of the corner will lend his own

stock freely under usual conditions for the purpose of covering up his manipulation and encouraging the short selling. He may thus accumulate all of the stock of the selected issue and have bought half again as much from the unsuspecting short sellers.

Finally, when the time is ripe for the squeeze, the operator will call in the stock that he has loaned to the shorts. The victims then learn suddenly that there is only one source from which the stock may be obtained. The operator is in a position to make his own price, at which, in the past, the short interests had to settle or lose all standing and credit with the Exchange, as the only alternative, repudiation of contracts, has not been countenanced by exchanges.

ACTION AGAINST CORNER

Now, however, the New York Stock Exchange has adopted a rule that empowers the Governing Committee to postpone delivery dates in the event of a corner of this character, and, the corner and price control continuing, to postpone further delivery from time to time until subsequent action by the Governing Committee.

The Committee may at any time declare by

resolution that if such security is not delivered on or before the date to which postponement has been made, the contract can be settled by the payment of a fair settlement price, and at a date, determined by the parties to the contract, and if they fail to agree, by the Governing Committee after a hearing either before the Governing Committee or a special committee appointed for the purpose.

This rule makes corners, in the old sense, a thing of the past.

THE SECURITY PRICE LEVEL

THE prices of securities are constantly changing. Such price movement is essential to the functioning of the stock market. The status of stock market prices as a whole, at any given time, is referred to as the general security price level, or simply, the price level.

The factors that enter into the technical position of the market, and cause the unceasing, moment to moment, fluctuation of prices, have been previously examined. There still remain for consideration some of the great underlying factors that influence security prices over long intervals of time, such as the general commodity price level, gold production and crop conditions.

INFLUENCE OF COMMODITY PRICES

The commodity price level, especially, affects security prices very gradually over periods of several years; but in the long run it is one of the greatest forces influencing the value of securities, and therefore security prices, since these ultimately coincide with value. All of the events

that constitute the business cycle affect commodity prices. However, while these prices may suffer temporary reaction during periods of depression, the trend, particularly between 1900 and 1920, was emphatically toward a higher commodity price level.

Causes that contribute to the long term, irregular advance of commodity prices are diminishing natural resources, increasing population, improved standards of living, etc. But the majority of authorities consider the increasing gold supply of the world the principal cause of the climbing commodity price level. It is reasoned that gold has for many years been produced in quantities so great as to depreciate its value. As the supply of gold increases its value decreases and consequently its purchasing power is reduced. In other words since gold is the basis of money more money is needed to buy a given amount of goods.

The depreciation in the value of gold, it is argued, results in a general increase of commodity prices which causes higher interest rates and thus has a decided effect upon the security price level. The price of bonds and preferred stocks tends to decrease because of their fixed income character, and the price level of common

stocks is variously affected depending upon the nature of investment represented.

CROP PRICE EFFECT

Farm crops are much more temporary in their effect upon security prices than the commodity price level is. But crops, perhaps, exert a more important year to year influence upon prices in the stock market than any other factor. The principal reason for this is the uncertainty of agricultural crops. They are dependent upon many purely natural conditions over which there can be no control. A crop variation of from 10 to 20 percent annually is nothing unusual, and some of the great staple crops may vary 50 percent or even more.

Considering, in connection with the above uncertainty, the great value of the annual crop, the huge volume of stuff that must be transported and handled many times before reaching the ultimate consumer, and the great industries dependent upon crops for their raw materials, it is not surprising that nothing is watched more closely in the stock market than crop reports. Fortunately very reliable reports of crop conditions are issued by the U. S. Department of agriculture and other Government departments.

COMMODITY PRICES AND THE SECURITY PRICE LEVEL

IF the situation commonly called "the high cost of living" was referred to instead as "the low cost of money" it might become a less painful subject to most people. When commodity prices are high the value of money is correspondingly low. More money can be obtained for less effort than formerly, that is to say at less cost. Increased prices and increased earnings may balance.

For this reason as the general commodity price level advances the price of the common stock of industrial corporations may change very little. Though the cost of production is higher, it may be offset by the increased earnings resulting from higher prices obtained for the finished product. These increased earnings combined with managerial efficiency, or a monopoly, might even more than counterbalance increased operating costs, in which case the price of the stock concerned would advance.

EFFECT ON UTILITY STOCKS

The situation with respect to the common stock of public utility corporations, however, might be different. The earnings of the railroads and public-service corporations depend upon the rates charged for services rendered to the public. These rates are usually subject to legislative regulation. To meet the rise in commodity prices and increased costs of operation such corporations would be obliged to increase their charges for service.

If increased charges were not permitted the corporation's rate of earnings would naturally diminish. If the decreased rate of earnings was not balanced by increased valuation of properties, undivided profits, business expansion, superior management or some other consideration, the price of the common stock involved would decline.

INFLUENCE ON BONDS AND PREFERRED STOCKS

As the commodity price level advances it influences a lower price level for fixed income securities such as bonds and preferred stocks. Such securities have the advantage of a definite income yield and safety as compared with com-

mon stock. However the fact that the income is definite and limited places them at a disadvantage as commodity prices rise. While the cost of goods has increased and the value of money has shrunk, the principle invested in bonds and preferred stocks is limited to the same income as formerly. This income, at the rate perhaps of five percent, may not amount to three percent in terms of what it will purchase.

There would be no object in maintaining an investment under such conditions when securities yielding a higher rate can be obtained. The bonds and preferred stocks are therefore sold to release the principle for reinvestment at a higher rate. Their price will stabilize at a point sufficiently low to yield a return on the present purchase price that will meet the high commodity price requirements.

All this applies in somewhat less degree to preferred stocks than to bonds, as the former usually earn a higher rate of income. If the bonds or the preferred stocks are convertible into common stock, or if the stock is of the participating preferred type, which shares with the common stock in the higher earnings of the company, the holder would, of course, be in position to meet the changed conditions.

CONTINUOUS MARKET EXPLAINED

TWO things are particularly desired by the owners of securities. One is ready marketability so that the security can be quickly converted back into cash. The other is a high loan value enabling the owner to borrow a maximum amount on the security as collateral.

To meet these requirements there must exist a market in which securities can be readily bought or sold at any time during business hours. A "continuous" market is a most essential factor then, both in creating a demand for securities and making possible the satisfaction of the demand.

CONDITIONS REQUIRED

By its very nature a continuous market must have at all times during its open hours a sufficient number of buyers and sellers to absorb all orders. The investing public, important as it is to the market, would not alone meet the situation. Without a group of speculators so large

that there is always somebody to buy or sell stock, without modern devices such as telephone, telegraph, cable, ticker, etc., to eliminate every possible delay, and without special methods such as the short sale for meeting and executing orders, a continuous market in the present day sense would be impossible.

Though the short sale is much misunderstood and speculation is subjected to general condemnation, it can hardly be denied that without these two great factors in stock market operations, the individual who desired immediate cash or a generous loan for his securities, the bank having quickly to convert securities or security collateral into cash, and the corporation placing an important security issue before the public to obtain urgently needed capital, all would be at a tremendous disadvantage as compared with the present facilities for handling any of these situations.

IMPORTANT FACTORS

In the matter of the actual buying and selling of any stocks at any time the activities of floor traders, specialists and odd lot dealers are indispensible, and these activities are for much the greater part concerned with speculation. These

brokers, particularly the odd-lot dealers, would all be impossibly handicapped were it not for the short sale. This makes it possible to fill an order for stock immediately though it may not at the moment be on the market. In the case of the odd-lot dealer, whose business now constitutes about one-third of the recorded volume of trading, success depends upon ability to sell small lots short and purchase 100-share lots later.

The specialists with their "books" in which are entered thousands of orders to buy or to sell, with the number of shares, name of client and character of order—G. T. C., stop loss, etc., contribute invaluably to a continuous market. Buying and selling their specialties at their own risk and ready to trade at all times they maintain, like the floor traders, a steady market for stocks that often would otherwise be quite inactive. They handle a great part of the stop loss orders by which customers limit their possible losses. In fact, were it not for the specialists it would be impossible to handle the great volume of such orders.

The odd-lot dealers, through their handling of orders for less than 100-share lots, bring into the market the influence of the buying and selling of thousands of people who because of lim-

ited means could not otherwise trade. In adding to market operations the huge volume of orders this represents, the odd-lot dealers function as one of the chief factors in the making of a continuous market.

BENEFITS OF CONTINUOUS MARKET

THE benefits of a continuous market, with its unceasing flow of transactions in securities, are numerous and of great importance to the business world and society. The great value of the facilities provided by such a market for the immediate investment or equally prompt withdrawal of funds must be obvious. From the investor's viewpoint also an open, continuous market assures higher loan value for his securities because of their easy negotiability in the market.

STABILIZES PRICES

The continuous market shortens the intervals between transactions in any given stock through the steady flow and great number of buying and selling orders characteristic of such a market. This constant stream of orders following each other closely results in smaller price fluctuations between deals.

The gradual rather than sharply changing

flow of prices that results is carried out over the country by the ticker and benefits every security holder, who is thus constantly informed of the market price of his holding at any given time. Long waits between quotations and big fluctuations from sale to sale are in general eliminated by a continuous market.

INCREASES NEGOTIABILITY AND LOAN VALUE OF SECURITIES

Stock exchange quotations are the basis upon which banks everywhere make security collateral loans. The amount of such collateral held by banks and other loaning institutions has kept pace with the enormous increase in the proportion of national wealth represented by stocks and bonds.

The acceptibility of security as collateral depends largely upon a continuous market in which a few minutes will suffice for the liquidation of loans so secured. This is true even to the extent that a highly speculative security that is very active on the market may be regarded as better collateral for a loan than a security that has greater intrinsic value but is comparatively inactive. The latter, with possible wide fluctuation between infrequent quotations, is less liquid

and therefore less desirable security from the lender's viewpoint.

ABSORBS FINANCIAL SHOCKS

When financial troubles threaten the business world the first place to feel the shock is the stock market. The weaker speculators and investors want money for their securities, creditors demand cash settlements and the banks find it necessary to call in loans and accumulate cash. Loans on security collateral are the first to be called because of the ease with which they can be liquidated. The continuous market meets this sudden heavy liquidation, and may do this so successfully that it absorbs the preliminary financial shock and ends the trouble. At the least it goes far toward discounting the difficulty and aids invaluably in the correction of the trouble.

The enormous amount of security collateral held by the banks as a result of the ease, as compared with other forms of collateral, with which it can be sold, is wholly a matter of the continuous market for such security. The sudden failure of the continuous market would be almost as disastrous as the sudden failure of all the banks.

THE BUCKET SHOP

THOUGH the stock exchanges of the country and the Federal and legal authorities have waged unceasing war on the "bucket shops" and are gradually eliminating them, the bucketing of orders is still carried on under cover of various clever evasions and disguises.

The bucket shop, as distinguished from the legitimate brokerage office where only the actual buying and selling of securities are engaged in, is a fictitious broker's office where the customers merely bet on the rise or fall in prices of stocks or commodities. The stock itself is never either bought or sold. The legitimate brokerage office transmits its orders to the great exchanges of the country where they are properly executed. A bucket shop deal begins and ends in the bucket shop, the stock never having been owned by the customer whose order to buy or sell is only a bet that the market will move in his favor.

BIG ODDS AGAINST CUSTOMER

The bucket shop, whatever its guise, is an outright gambling institution. As in any organized gambling the odds are all against the victim. He is at a disadvantage from the moment that he lays down his money, and, in the case of the bucket shop, the starting handicap may be increased by the dishonest tricks of the fictitious broker. The real market may be manipulated to close out the bettor. Especially in the past false quotations have been used for this purpose. In the event of a situation in which a number of patrons might actually be winning, the "bank" may "break," or in other words, operations be suddenly suspended.

In the old days, and it is probably still true where the bucket shop manages to exist, the so called $10 stock trade was a favorite among the bucket shop patrons. Ten dollars was paid in at the "order" window as "margin" for the purpose of "buying" ten shares of a selected stock; that is, betting that the price of the stock would rise or fall as previously decided. The bucketeer's commission—house charge in ordinary gambling parlance—was on the basis of a ¼

point (25¢) per share, or $2.50 for the ten shares, so that the customer started with a 25% handicap, his $10 representing only $7.50 in margin. If his bet was on a stock quoted at $100, and it declined to 99¼, his $7.50 margin was wiped out, and he lost his $10. The remaining quarter went to the "broker."

The stock would have to advance to 101¼ before the customer could win $10. He was really betting that the stock would advance to 101¼ before it declined to 99¼, or that it would advance a point and a quarter or $1.25, before it dropped three quarters of a point or 75¢ which further increased the odds against him. The sucker, in the good old army manner, was given much less than an even break.

STOCK EXCHANGE ACTION AGAINST BUCKET SHOPS

Perhaps the most effective move ever made in the constant effort to eliminate bucket shops was the action taken by the Quotation Committee of the Stock Exchange. The stock ticker was a necessary part of bucket shop equipment since these places pretended to deal in listed stocks and betting was based on their prices.

The Quotation Committee, in control of the handling of quotations and use of the ticker, ruled to permit ticker installation only by legitimate and approved individuals or firms, and thus stopped its fraudulent use by bucket shops.

STOCK MARKET PROPHETIC OF FUTURE

IT is said that the Stock Exchange is of all institutions the most sensitive to current events. The occurrence of the event any place in the world and the reaction to it on the Exchange, if it has any significance at all for the stock market, is as nearly simultaneous as telephone, telegraph, cable and radio can make it.

The Exchange acts as a great clearing house for the news of the world in so far as the news has any bearing upon conditions that will or may effect security prices. Such news, including of course the direct stock market information and reports, is almost equally available to the great body of security holders everywhere.

Their reaction to it combined with that of the professional elements in the market, as registered in the quotations flowing from the ticker is said to be an expression of the collective judgment concerning the value of securities and the effect upon that value of concurrent happenings.

This collective judgment as reflected in the trend of the market (general movement of prices up or down) is based upon what is presumed will happen in the immediate or remote future as a result of present conditions, and is supposed to forecast what actually will happen. As Wall Street phrases it: The trend of the market discounts the future.

TREND OF THE MARKET

The paramount interest of those concerned with the security market may be expressed in the question: "What are stocks going to do?" It is primarily an interest in the future, whether the next day or the next couple of years. In general the most successful operations in the market are conducted by those who can most accurately foresee and discount future events. Everyone in the market is straining for such accuracy, and if on the whole they are proceeding to do so intelligently it is reasonable to assume that just to the extent the collective judgment is intelligent the future is in measure predicted and discounted.

However, so far as the great multitude of investors and speculators as a whole is concerned,

it would probably be more accurate to call it collective response than collective judgment. It is more than likely that the vast majority of these follow the trend rather than make it. They follow the trend of quotations as shown on the ticker.

WHO STARTS THE TREND

But somebody started the trend. The major trend of prices is now being referred to rather than temporary, day to day fluctuations. It is a fair assumption that whoever or whatever group starts the trend, has the intelligence and knowledge of the market to form independent judgment and proceed with confidence to buy or sell as the case may be without waiting for the direction of the tape. The collective response then maintains and intensifies the trend of the market, which will discount the future in direct proportion to the accuracy of judgment of those who started it.

The men who are in possession of the most reliable information and in a position most intelligently to judge conditions and anticipate the future, are plainly the great financial, industrial and commercial leaders of the nation. Among

such men it would be reasonable to look for those who start the trend that is said to discount the future.

With some exceptions that have apparently increased in recent years, due no doubt to such powerful new factors as the Federal Reserve, a review of many years seems to indicate that periods of depression or prosperity have in fact been discounted by the stock market.

STOCK EXCHANGE USAGES

STOCK exchanges, through their many years of operation, have developed certain methods of transacting business. When these methods have become customary, and are the common practice on any exchange, they are known as the usages of that exchange. Perhaps no business involves more customs and the use of more special terms and expressions, than the stock market.

Along with exchange usages and in general descriptive of them has grown up a technical stock market language. This language condenses a complete phrase or an entire operation into one word or expression. To be unfamiliar with its terminology places anybody who is trying to understand the stock market at as great a disadvantage as an individual in the bleachers trying to follow the game and not knowing the difference between a foul ball and an umpire.

LAW BASED ON USAGE

A customer's ignorance of usages or failure to

understand the established language of the stock market does not release him from being bound by them in any contracts entered into with brokers or brokerage firms. Legal interpretations are based upon established usages. Usage cannot conflict with definitely expressed contracts or alter their plain intent, nor can it be opposed to fixed rules of law or public policy. If, however, it does not conflict with these principles usage is mutually understood by the contracting parties to enter into the intent of the contract.

Usually a broker's order form employs some such wording as: "(Buy) or (Sell) for my account and risk (amount and symbol of stock) at (price)." Sometimes the order blank contains merely the words "Buy" or "Sell." But while the wording takes a short and convenient form the order constitutes a contract which the broker is obliged to execute according to the customs and usages which are legally understood to be included, and the customer is bound to assume obligations resulting from the performance of his order.

COMMON USAGES

The broker, however, having with due dili-

gence attempted to execute the order cannot be held strictly to buy or sell the stock. For example, in contracting with another broker to handle the transaction on the floor of the exchange, the latter may be unable to deliver or receive the security in question. The broker does not agree to buy or sell the security, but merely to make a sale or find a purchaser if possible, and inability to comply after due effort has been made is at the risk of the customer.

It is understood that the broker will execute the order as soon as possible and if loss is sustained by his failure to do this he is held liable. All orders, unless special arrangement is made, must be executed in the open market on the floor of the exchange.

No specific contrary directions being given it is understood that delivery shall be "regular way," that is, upon the business day following the transaction. Unless the order specifically prevents the broker is legally permitted to buy or sell a smaller number of shares than is called for In doing so, however, an order for 100 shares, or 100-share lots, is by usage never split into odd lots.

The order not specifically directing otherwise, it is understood that the broker will buy or sell

at the best price, that is, at the market, and that execution of the order is limited to the day on which given. It is also understood that if possible an order to sell will be executed at a higher price than specified, or an order to buy at a lower price, for the customer's benefit.

ARBITRAGING

WHILE "arbitraging" for most people is an unfamiliar word identified with the stock market it is not at all an unfamiliar principle in business. A shrewd dealer in real estate who obtains control of a piece of property for which he has already procured a buyer is arbitraging in principle. Arbitrage is simply buying and selling in different markets or at different points, simultaneously or virtually so, for the profit derived from difference in prices.

Arbitrage may be conducted in the same community or across the width of the world. The advent of telegraph, telephone and cable made it possible to transact business simultaneously in widely separated markets. In the security field arbitraging was conducted between any exchanges where there was sufficient difference in prices to enable a profit. The most important arbitraging, however, was carried on between New York and London.

DISCONTINUED DURING WAR

Formerly arbitraging between New York and foreign exchanges was conducted on the floor of the New York Stock Exchange. At the south end of the board room was an "arbitrage rail" behind which pneumatic tubes connected the floor of the Exchange with the cable office. At this rail the arbitragers congregated for the transaction of their interesting business. In 1920 restrictions were placed upon the practice of arbitraging which removed it from the floor of the exchange to the offices of Exchange members. War conditions added such difficulties as to cause its entire cessation for a long period.

Few of Wall Street's many fascinating operations appeal more to the romantic imagination than this particular phase of the international traffic in securities. It reached into all the great world markets, and depended for success upon the fact that the cable brought the London Stock Exchange, and the bourses of Paris, Berlin and Amsterdam within a few minutes of New York.

The peculiar complexities and risks of arbitraging add to its fascination. Reliable associates on the foreign exchanges, financially able to handle large transactions and ready to act at

a moment's notice, are essential. Customs of the foreign exchanges, conditions of the money markets at all points of operation and rates of foreign exchange, commissions, cable tolls and many other intricate matters must all be at the fingers' ends.

RESOLUTIONS AGAINST

Arbitraging between New York and London attained its greatest activity just before the war, at which time about twenty firms maintained arbitrage departments, and business would on some days aggregate 100,000 shares involving some 5,000 cable messages.

As early as 1898 the Stock Exchange adopted a resolution preventing arbitraging by any of its members on the principal ground that trading between Exchanges in the United States resulted in practically ignoring the commission law of the Exchange. This action virtually eliminated domestic arbitraging.

Further action taken by the Stock Exchange in 1911 and 1920, combined with war and post war conditions such as laws against importing securities, censorship of cables, prohibition of code messages, suspensions of trading, changed

conditions, etc., virtually stopped the practice. The effects of these restrictions have never worn off and the old conditions of this type of trading have not been restored. Arbitraging is now very inactive.

PRINCIPLES GOVERNING PLEDGING OF STOCK

MARGINAL transactions constitute a very large proportion of the total volume of business conducted on stock exchanges. As previously explained the customer in such transactions advances part of the price of the securities involved, and pledges the stock with the broker as collateral for the balance of the purchase price. The broker then borrows the amount of the balance from a bank or money broker, in turn pledging or "re-pledging" the stock.

It is well established legally that the broker may do this, and that his pledgee, the bank or money broker, has a good lien on the stock, and is privileged to sell it without notifying the customer if the conditions of the loan are not met. The broker is obliged to keep on hand, or under his control, either the securities in question or securities of the same kind and in like amount. He must be in position at all times to make delivery to the customer whenever, within

the terms of the contract, the latter is ready to close the transaction.

RELATIVE RIGHTS OF PLEDGEES

The law of New York grants to the final pledgee rights superior to those of the broker, since the former may liquidate the loan by sale of the securities without notice to the customer. The rights of the last pledgee may also supplant those of the nominal owner of the securities, the customer, for it has been held that in the event of the broker's wrongful use or conversion of the stock, the customer must bear the loss if any act on his part, such as assignment of stock in blank, made the conversion possible.

While the broker's right to pledge stock held as security in marginal transactions is legally settled, there is difference of opinion as to the manner in which this right may be exercised. It is the general practice of brokers as a matter of convenience and great saving of time, to take the customer's margined stock together with other securities to the bank, and obtain a single loan upon the whole lot of securities, instead of a separate loan upon the security held for each individual.

LAW ON PLEDGING

Some court decisions have held that a broker may not thus pledge stock "en bloc" for the reason that in doing so he involves the customer's stock in a loan that is greater than the latter's indebtedness to the broker, and that though the customer may then tender the balance owing to the broker, the broker is not in a position to release his customer's stock for delivery except by paying the larger amount represented by the loan on the commingled stock.

In most states, however, the courts have held that a broker may borrow money by pledging margined securities en bloc. In New York, until 1912, the courts ruled against such handling of margined security, but the law since that time has permitted the re-pledging of stocks en bloc. The view is taken that the broker's obligation to the customer is discharged when he delivers the stock upon demand and payment of amounts due, and that in the meantime his duty is fulfilled by keeping on hand, or maintaining control of, the stocks carried for the customer, and that if the pledging of the stock does not impair control it is permissible.

The New York law prohibits the borrowing

of a larger amount on a client's margined securities than is due the broker on the client's account. It is a rule of the New York Stock Exchange that no agreement between a member and a customer relative to the pledging or the lending of the customer's securities will "justify the member in pledging or loaning more of such securities than is fair and reasonable in view of the indebtedness of said customer to said broker."

LEGAL RIGHTS OF CUSTOMER

A BROKER'S client is entitled to damages in the event of the wrongful use of securities by a broker to whom they have been entrusted, or in case failure on the part of the broker to execute orders properly results in loss to the customer due to a rise in price of the security in question, in which he failed to benefit because of the broker's neglect. It has been ruled in the New York court that such damages should be measured by the highest price attained by the stock between the time of the broker's act of neglect and a time after the owner has received notice of it, reasonably sufficient to replace the stock.

During the time that a broker is holding the stock in a margin transaction dividends and interest are accruing, and assessments or loan calls against it may eventuate. The broker is merely retaining the stock as security, while the customer becomes the owner of the stock as soon as it is purchased. The latter is therefore entitled

to all dividends, interest, rights or other benefits attaching to the ownership of the stock and is liable for any claims against it.

BROKER'S RIGHTS IN MARGINED STOCK

The broker however has the legal right to hold the dividends or other benefits till the customer closes the transaction, as legally any increase in value of pledged property becomes part of the pledge. The broker can also have the security in question transferred to himself or any person of his selection, but such transfer does not alter any of the rights, except voting, of the owner of the stock.

Under the corporation laws of the State of New York the voting power of the stock may be exercised only by the holder of record, and the broker may vote the stock if he has transferred it to himself. He may be restrained, however, and proxy granted the owner through appeal to the Supreme Court, if the owner of the stock can show that his rights will be prejudiced.

IN CASE OF INSOLVENCY

If a broker or brokerage firm becomes insolvent no securities or money can be accepted from customers after knowledge of insolvency, except

in liquidation of existing indebtedness to the broker on the part of customers. Violation of this statute of the State of New York carries a heavy penalty. Any broker cooperating knowingly with an insolvent broker is equally liable with the latter for his acts to the customer of the insolvent broker.

In the case of a broker pledging stock en bloc, some rightfully and some wrongfully, those whose stock has been wrongfully pledged have the superior claim for damages. Where securities have been deposited with a broker for safekeeping or sale, and he sells them wrongfully and deposits the proceeds with his own bank account, the courts hold that the customer is entitled to any remaining balance.

When a broker becomes insolvent the customers have a claim prior to that of the broker's assignee to stock carried for them by the broker. If the broker pledges the client's securities for an amount greater than the indebtedness of the client, the latter can recover his stock from the broker's pledgee only by payment of the full debt of the broker.

Successful prosecution of claims in broker's insolvency cases hinges largely upon the claimant's ability to identify the securities involved.

ECONOMIC BENEFITS OF STOCK MARKET

THE huge scale upon which modern industry operates requires an amount of money so large that it is available only through the coöperation of many individuals, sometimes thousands. The organization and progress of industries depend upon the sale of stocks and bonds to these, often widely distributed, people.

The stock exchanges offer facilities that could be provided in no other way, for the sale of securities to speculators and investors. Without the means thus provided for the distribution of securities and the raising of the money necessary for organization and operation the larger concerns would be tremendously handicapped and in many cases could not be established.

ADVANTAGE TO INVESTORS

For individuals or firms who have large amounts available for investment the stock market constitutes a very important part of the daily

business machinery. It enables them to find immediate and safe investment for surplus funds and to distribute their investment in any manner desired. The investments can be shifted to fit requirements or return of the money obtained at once.

The same service is extended to smaller investors. Protected by the regulations of the exchange, and for fixed brokers' charges, they have the advantage of being able to buy or sell securities at any time, at prices established in a free and open market. These prices can be confirmed at any given time by reference to quotations transmitted immediately by the ticker and published in newspapers.

They can vary their investment as circumstances dictate, from the safety of bonds to the speculative possibilities of common stock. Information can be obtained concerning the corporations whose securities may be of interest that would not otherwise be available. In general none of the above advantages attach to unlisted stocks. The great importance of stock exchanges to investors is obvious.

Virtually all banks deal directly or indirectly in securities. It has been estimated that at the present time about 40 percent of the bank credit

of the country is secured by stocks and bonds. The measure in which banks depend upon stock exchange operations is thus very plainly indicated. The savings bank is interested in securities as an investment; the commercial banks' particular interest in securities is that they constitute the most convenient form of collateral for loans; the investment bank, dealing in and distributing securities, is dependent upon stock exchange activities.

BENEFIT TO CONSUMERS

And the consumer, often referred to as the ultimate consumer, who constitutes the total population of the country, is also the ultimate beneficiary. The production of goods in great quantity and its low cost movement to the consumer, is possible only through the operations of great industrial, and trading and transportation companies. Such companies are dependent for capital upon the facilities provided by the Stock Exchange for the distribution of their securities.

The reduced costs that result from the production and distribution of goods conducted on a gigantic scale accrue finally to the benefit of the consumer in the form of reduced prices. The

consumer, however, particularly during the last two years, has awakened to another possible, and more direct, benefit to be derived by him from the stock market. Through the ownership of listed securities he is appearing at an amazingly increasing rate in the light of a producer as well as consumer of the nation's goods.

It is an interesting possibility, the occurrence of which seems indicated by the course of events, that the ultimate consumer in a not too remote future may also be the ultimate producer.

TICKER SYMBOLS FOR NEW YORK STOCK EXCHANGE STOCKS

NOTES

One price following the abbreviation of a stock signifies a sale of 100 shares at that price, thus: X.158½.

When more than 100 shares are sold, the number of shares sold will precede the price thus: X.2.158½.

In times of extreme activity, and after the opening prices on stocks have been printed on the tape, all except the final full figures may be dropped in printing quotations, i. e., in printing 100 shares of Steel at 158½ it will read "X8½." If 800 shares are sold at 158½ it will read "X8S8½," so that the number of shares sold will not conflict with the prices.

Sales of stocks dealt in on 10 share unit basis at Post 30 will be designated by letters SS in printing the same on tape.

Odd lots (on figure line), of stocks dealt in on a 100 share unit basis will be designated by the letters SHRS when printed on tape.

An offer alone, without a bid, is preceded by an O and a dot, thus: X. O. 158½.

A bid alone, without an offer, is followed by the letter B, thus: X.158½ B.

When a sale is not reported in its proper place, the price will be preceded by the abbreviation SLD, thus: X. SLD. 158½.

When the amount sold and the price are so nearly alike that they may be taken for two sales, the amount of the sale will be followed by the letter S thus: TCN.4S6, meaning 400 shares at 6.

When an error has been made by the reporter, or in printing, the last letter or figure is repeated several times, in-

dicating that the quotation is to be thrown out, thus: X.158½ ½½½½.

In closing prices of active stocks, BR 40C. 6C indicates 40 is bid for an odd lot and an odd lot is offered at 46.

Three-day contracts will be printed thus: X.158½ 3 days.

At fourteen minutes after Two P. M. the words "Delivery Time" will be printed on the tape, and shortly after, the lever of the instrument will give fifteen distinct beats. At the end of the fifteenth beat, it is 2.15 P. M., and the close of the recognized time for the settlement of transactions.

Bonds of companies that have no abbreviations on the card will be abbreviated as plainly as possible, and all will be printed with the bond designation added, as per "Words and Phrases" list. A single price after the abbreviation of a bond indicates a sale of $1,000 bond at that price.

Transactions in U. S. Government Bonds made in variations of not less than one thirty-second of 1% are printed as follows: A sale at 99 and 13–32nds appears as 99.13.

When a stock and bond have the same abbreviation, the abbreviation is listed only under "Stock Abbreviations."

A	Class A.
AJ	Adjustment.
ASST	Assented.
B	Bonds, Class B, or (on figure line) Bid or buyer.
C	Bonds, Class C (on figure line)
CLT	Collateral Trust.
CN	Consolidated.
CT	Certificates.
CV	Convertible.
D	Debenture or Division.
DD	Delayed Delivery.

EXT	Extended or Extension.
FD	Funding.
FPD	Full Paid.
GM	General Mortgage.
GNT	Land Grant.
GTD	Guaranteed.
I	First.
II	Second.
III	Third.
IMP	Improvement.
IN	Income.
LL	Leased Line.
MTG	Mortgage.
N	New.
ND	Next Day's Delivery.
NN	Non-voting.
O	Offered (on figure line).
OB	Opening of Books.
PR	Preferred.
P Pr	Prior or Participating Preferred.
RCT	Receipt.
RE	Real Estate.
REG	Registered.
S	Seller or Shares.
SB	Small Bonds.
SF	Sinking Fund.
SHRS	Odd Lots (100 Share Basis) (on figure line).
SS	Odd Lots (10 Share Basis) (on figure line).
STMPD	Stamped.
T	Terminal.
TE	Tax Exempt.
UN	Unified.
WI	When Issued.
X	Ex-coupon, dividend or interest.

A

ABI	Abitibi Power & Paper Co.
AST	Abraham & Straus, Inc.
AST Pr	Abraham & Straus, Inc., Pfd.
AE	Adams Express Co.
RX	Advance Rumely Co.
AUA	Ahumada Lead Co.
ADN	Air Reduction Co.
AJ	Ajax Rubber Co., Inc.
ALM	Alabama & Vicksburg Ry. Co.
JU	Alaska Juneau Gold Mining Co.
AQS	Albany & Susquehanna R. R.
ANW	Albany Perf. Wrap. Paper Co.
AY	Allegheny & Western Ry. (Gtd)
ANR	Alliance Realty Corp.
ACD	Allied Chemical & Dye Corp.
AH	Allis Chalmers Mfg. Co.
ALR	Amalgamated Leather Co's., Inc.
ARC	Amerada Corp.
AGR	Amer. Agricultural Chem. Co.
ABN	American Bank Note Co.
ABN Pr	American Bank Note Co., Pfd.
ABS	American Beet Sugar Co.
BOS	American Bosch Magneto Corp.
ABK	American Brake Shoe & Foundry
BOV	Amer. Brown Boveri Elec. Corp.
BOV Pr	Am. Brown Bov. El. Corp. Pfd.
AC	American Can Co.
AF	American Car & Foundry Co.
ACN	American Chain Company
CCH	American Chicle Co.
CCH P.Pr	American Chicle Co., Prior Pfd.

ACL	American Coal Co. of Allegany.
ADS	American Druggists Syndicate.
AEN	Amer. Encaustic Tiling Co. (Ltd.)
AMX	American Express Co.
AFW	American & Foreign Power Co.
HI	American Hide & Leather Co.
AHO	American Home Products Corp.
IS	American Ice Co.
AD	American International Corp.
AFG	Am.-La France & Foamite Corp.
AL	American Linseed Co.
ALO	American Locomotive Co.
AFX	Amer. Mach. & Foundry.
AFX Pr	Amer. Mach. & Foundry, Pfd.
AMM	American Metal Co., Ltd.
AMP	American Piano Co.
AMP Pr	American Piano Co., Pfd.
AOW	American Power & Light Co.
ADT	American Radiator Co.
ADT Pr	American Radiator Co., Pfd.
ARX	American Railway Express.
ARU	American Republics Corporation
ARZ	American Safety Razor Corp.
AMZ	American Seating Co.
ACS	Amer. Ship & Commerce Corp.
ASU	American Shipbuilding Co.
AR	Amer. Smelting & Refining Co.
SNU	American Snuff Co.
SNU Pr	American Snuff Co., Pfd.
FJ	American Steel Foundries Co.
FJ Pr	American Steel Foundries, Pfd.
ASR	American Sugar Refining Co.
AMS	Amer. Sumatra Tobacco Corp.

ACE	American Telegraph & Cable Co.
ATT	American Tel. & Tel. Co.
AT	American Tobacco Co.
ATB	American Tobacco, "B" Stock.
TY	American Type Founders.
TY Pr	American Type Founders, Pfd.
AWW	Amer. Water W. & El. Co., Inc.
AWH Pr	American Wholesale Corp., Pfd.
WY	American Woolen Co. of Mass.
AW	American Writing Paper Co.
ZA	Amer. Zinc, Lead & Smelting Co.
C	Anaconda Copper Mining Co.
AN	Ann Arbor R. R. Co.
ADD	Archer-Daniels-Midland.
ADD Pr	Archer-Daniels-Midland, Pfd.
AMD	Armour & Co., of Delaware.
AM	Armour & Co. (Illinois)
ACT	Arnold Constable Corp.
ARR	Artloom Corporation.
ARR Pr	Artloom Corporation, Pfd.
ART	Art Metal Construction Co.
DG	Associated Dry Goods Corp.
ADO	Associated Oil Co.
A	Atchison, Topeka & Santa Fe Ry.
AX	Atlantic Coast Line R. R.
AG	Atl. Gulf & W. Indies S. S. Lines.
AFI	Atlantic Refining Co.
APW	Atlas Powder Co.
APW Pr	Atlas Powder Co., Pfd.
AKO	Atlas Tack Corp.
ANO	Austin, Nichols & Co.
ACR	Austrian Credit-Anstalt.
AU	Auto Sales Corp.
AUZ	AutoStrop Safety Razor Co., Inc.

B

B	Baldwin Locomotive.
BO	Baltimore & Ohio.
BG	Bamberger (L.) & Co.
BNK	Bangor & Aroostook R. R.
BNK Pr	Bangor & Aroostook R. R., Pfd.
——	Bank Stocks.
BKR	Barker Bros. Corp.
BLR	Barnet Leather Co.
BLR Pr	Barnet Leather Co., Pfd.
BDL	Barnsdall Corporation.
BY	Bayuk Cigars.
BY Pr	Bayuk Cigars (1st & 2nd Pfd).
BCD	Beacon Oil Co.
BCH	Beech Creek R. R.
BNU	Beech-Nut Packing.
BV	Belding-Heminway Co.
BLW	Belgian National Rys.
BST	Best & Co., Inc.
BS	Bethlehem Steel.
BBL	Bloomingdale Bros., Inc.
BBL Pr	Bloomingdale Bros., Inc., Pfd.
SBM Pr	Blumenthal & Co., (Sidney) Pfd.
BM	Bon Ami Co. (The).
BF	Booth Fisheries Co.
BD	Bordon Company (The).
BMR	Boston & Maine R. R.
BTY	Botany Consolidated Mills, Inc.
BGI	Briggs Manufacturing Co.
BMP	British Empire Steel.
BKM	Brockway Motor Truck Corp.
BE	Brooklyn Edison Co.
BMT	B'klyn-Manhattan Transit Corp.

BU	Brooklyn Union Gas.
BW	Brown Shoe Co.
BW Pr	Brown Shoe Co., (7% Pfd).
BCC	Brunswick-Balke-Collender Co.
BK	Brunswick Term. & Ry. Sec. Co.
BEY	Bucyrus-Erie Co.
BR	Buffalo, Roch. & Pitts. Ry.
BFQ	Buffalo & Susq. R. R.
BFQ Pr	Buffalo & Susq. R. R., Pfd.
BB	Burns Bros., ("A & B").
BB Pr	Burns Bros., Pfd.
BGH	Burroughs Adding Machine Co.
BHB Pr	Bush Terminal Bldgs. Co., Pfd.
BH	Bush Terminal Co.
BHD	Bush Term. Co. Deben. Stock.
BC	Butte Copper & Zinc Co.
BT	Butte & Superior Mining.
BCK	Butterick Co.
ABY	Byers Co. (A. M.).
ABY Pr	Byers Co. (A. M.) Pfd.
BYC	By-Products Coke Corp.

C

CFF	California Packing Corp.
CPU	California Petroleum Corp.
CIM	Callahan Zinc-Lead Co.
CMM	Calumet & Arizona Mining Co.
CAH	Calumet & Hecla Cons. Cop. Co.
DGL	Canada Dry Ginger Ale, Inc.
CSA	Canada Southern Ry.
CP	Canadian Pacific Ry. Co.
CCL	Carolina, Clinchfield & Ohio Ry.
CTM	Case (J. I.) Threshing Machine.

CES	Central Alloy Steel Corp.
CES Pr	Central Alloy Steel Corp., Pfd.
CKO	Central Coal & Coke Co.
CL	Central Leather Co.
JC	Central R. R. of New Jersey.
CTY	Century Ribbon Mills, Inc.
CTY Pr	Century Ribbon Mills, Inc., Pfd.
CDP	Cerro de Pasco Copper Corp.
CRT	Certain-teed Products Corp.
CER	Certo Corporation.
CHM	Chandler-Cleveland Mot. Corp.
CO	Chesapeake & Ohio.
CHK	Chesapeake Corp. (The).
ALT	Chicago & Alton R. R. Co.
CE	Chicago & Eastern Illinois R. R.
NW	Chicago & Northwestern.
GW	Chicago Great Western.
CIL Pr	Chic., Ind. & Louisville Ry., Pfd.
ST	Chi., Mil., St. Paul & Pac. R. R.
CGG	Chicago Pneumatic Tool Co.
RI	Chic., Rock Island & Pacific Ry.
OM	Chic., St. Paul, Minn. & Omaha.
TXY	Chicago Yellow Cab Co.
CIK	Chickasha Cotton Oil Co.
CDI	Childs Co.
CHL	Chile Copper Co.
CHT	Christie, Brown & Co., Ltd.
K	Chrysler Corporation.
CSC Pr	Cin., Sandusky & Cleve., Pfd.
CNV	City Investing Co.
CSS	City Stores Co., Class "A."
CSS	City Stores Co., Class "B."
PTT	Cleveland & Pittsburgh, Gtd.
PTT SPL	Cleveland & Pitts. Special Gtd.

CC	Cleve., Cin., Chic. & St. L.
CC Pr	Cleve., Cin., Chic. & St. L., Pfd.
CLU	Cluett, Peabody & Co.
CLU Pr	Cluett, Peabody & Co., Pfd.
KO	Coca-Cola Co.
KOC	Coca-Cola International Corp.
CK	Collins and Aikman Corp.
CX	Colorado & Southern Ry.
CX Pr	Colorado & Southern Ry., Pfd.
CF	Colorado Fuel & Iron Co.
CF Pr	Colorado Fuel & Iron Co., Pfd.
CG	Columbia Gas & Electric Corp.
CBN	Columbian Carbon Company.
CMO	Commercial Credit Co.
CMO Pr	Commercial Credit Co., Pfd.
CIT	Comm. Inv. Tr. Corp. (Com.).
CIT Pr	Comm. Inv. Tr. Corp. (7% Pfd.).
CIT Pr	Com. Inv. Tr. Corp. (6½% Pfd.).
CV	Commercial Solvents Corp.
CMP	Commonwealth Power Corp.
CDD	Conde Nast Publications, Inc.
COG	Congoleum-Nairn, Inc.
CNG	Congress Cigar Co., Inc.
CLY	Conley Tinfoil Corporation.
CRW	Connecticut Ry. & Lighting Co.
CGR	Consolidated Cigar.
CFM	Cons. Film Industries, Inc.
G	Consolidated Gas Co.
CCU	Consolidated Railroads of Cuba.
CTX	Consolidated Textile Corp.
CNR	Container Corp. of America.
CI	Continental Baking Corp.
CH	Continental Can Co. (Com.).
CH Pr	Continental Can Co., Pfd.

CIS	Continental Insurance Co.
CMR	Continental Motors.
CFG	Corn Products Refining Co.
COT	Coty, Inc.
CRX	Crex Carpet Co.
CWW	Crown Willamette Paper Co.
XA	Crucible Steel Co. of America.
CS	Cuba Cane Sugar Co.
CUB	Cuba Company (The).
CBR Pr	Cuba Railroad Co., Pfd.
CSU	Cuban-American Sugar Co.
DMS	Cuban-Dominican Sugar Corp.
CUX	Cudahy Packing Co. (The).
CUZ	Curtiss Aerop. & Motor Co., Inc.
CHS	Cushman's Sons, Inc.
CHS Pr	Cushman's Sons, Inc. (7% Pfd.).
CHS Pr	Cushman's Sons, Inc. ($8 Pfd.).
CEH	Cutler-Hammer Mfg. Co., (The).
CDF	Cuyamel Fruit Company.

D

D	Davison Chemical Co. (The).
DB	De Beers Consolidated Mines.
DEM	Debenhams Securities, Ltd.
DER Pr	Deere & Co., Pfd.
DH	Delaware & Hudson Co.
DL	Delaware, Lack. & Western R. R.
DGR	Denver & Rio G. West. R. R.
DET	Detroit & Mackinac Ry.
DTE	Detroit Edison Co.
DHS	Detroit, Hillsdale & S. W. Ry.
DU	Detroit United Ry.
DRS	Devoe & Raynolds, Inc.

DRS Pr	Devoe & Raynolds, Inc., Pfd.
DN	Diamond Match Co.
DEE	Dodge Brothers, Inc.
DO	Dome Mines Co.
DRU	Drug, Inc.
DS	Duluth, South Shore & Atl. Ry.
DX	Duluth Superior Traction.
DHI	Dunhill International, Inc.
DD	Du Pont de Nemours & Co. (E.I.).
DQU	Duquesne Light Company.
DHO	Durham Hosiery Mills.
DHO Pr	Durham Hos. Mills, (7% Pfd.).

E

EK	Eastman Kodak Co. of N. J.
EK Pr	Eastman Kodak Co. of N. J., Pfd.
ENX	Eaton Axle & Spring Co.
EIS	Eisenlohr (Otto) & Bros., Inc.
EIS Pr	Eisenlohr (Otto) & Bros., Inc., Pfd.
EGS	Eitingon Schild Co., Inc.
ELO	Electric Auto-Lite Co. (The).
ELB	Electric Boat Co.
EL	Electric Power & Light Corp.
EL	El. Pwr. & Lt. Corp., (allot. ctfs. full paid).
EG	Electric Storage Battery.
EH	Elk Horn Coal Corp.
EH Pr	Elk Horn Coal Corp., Pfd.
EGM	Emerson Brantingham.
EMP	Emporium Capwell Corp. (The).
EJ	Endicott Johnson.
EPU	Engineers Public Service Co.
EQ	Equitable Office Bldg. Corp.
EQ Pr	Equitable Office Bldg. Corp., Pfd.

EP	Erie & Pittsburgh R. R.
E	Erie R. R.
EU	Eureka Vacuum Cleaner Co.
EXY	Exchange Buffet Corp.

F

TF	Fair (The).
TF Pr	Fair (The) Pfd.
FI	Fairbanks Co.
FI Pr	Fairbanks Co., Pfd.
FKM	Fairbanks, Morse & Co.
FKM Pr	Fairbanks, Morse & Co., Pfd.
FLT	Federal Light & Traction.
FLT Pr	Federal Light & Traction, Pfd.
FS	Federal Mining & Smelting.
FMT	Federal Motor Truck Co.
FPX	Fidel.-Phen. Fire Ins. Co. of N. Y.
FV	Fifth Avenue Bus Sec. Corp.
FNP	First National Pictures, Inc.
FST	First National Stores, Inc.
FK	Fisk Rubber Co.
F	Fleischmann Company.
FO	Foundation Company (The).
FOX	Fox Film Corporation.
FIS Pr	Franklin Simon Co., Pfd.
FT	Freeport Texas Co.
FL	Fuller (Geo. A.) & Co.

G

GRR	Gabriel Snubber Mfg. Co. (The).
GRD	Gardner Motor Co., Inc.
GT	General Amer. Tank Car Corp.

AS	General Asphalt Co.
GBG Pr	General Baking Co., Pfd.
GGN	General Cable Corp.
GY	General Cigar Co.
GY Pr	General Cigar Co., Pfd.
GL	General Electric.
GGS	General Gas & Electric Co. (of Del.).
GIP	General Ice Cream Corp.
GM	General Motors.
GMD	General Motors, Debenture Stk.
GVZ	General Outdoor Adver. Co., Inc.
GRS	General Railway Signal.
GRS Pr	General Railway Signal, Pfd.
GRX	General Refractories Co.
GIL	Gillette Safety Razor Co.
GI	Gimbel Bros., Inc.
GLN	Glidden Company.
GLN P. Pr	Glidden Company, Prior Pfd.
GK	Gold Dust Corp.
GSX	Gold & Stock Telegraph Co.
GG	Goodrich Co. (B. F.).
GOR	Goodyear Tire & Rubber Co.
GHM	Gotham Silk Hosiery Co., Inc.
GHM Pr	Goth. S. Hos., Pfd. (without Warr.).
GUC	Gould Coupler Co. (The).
GHR	Graham-Paige Motors Corp.
GB	Granby Cons. Min., Smelt. & Pw.
GNW	Grand (F. & W.) 5–10–25¢ Stores
GUX	Grand Union Co. (The).
OR	Great Northern Iron Ore Prop.
GQ	Great Northern Ry. Pfd.
GSW	Great Western Sugar Co.
GSW Pr	Great Western Sugar Co., Pfd.
GN	Green Bay & Western Ry.

GNP	Greene Cananea Copper Co.
GS	Guantanamo Sugar Co.
GS Pr	Guantanamo Sugar Co., Pfd.
GU	Gulf, Mobile & Northern.
GJ	Gulf States Steel Co.
GJ Pr	Gulf States Steel Co., Pfd.

H

HWA	Hackensack Water Co.
HMW	Hamilton Watch Co.
HNA Pr	Hanna Company, Pfd.
HKM	Harbison-Walker Refrac. Co.
HRT	Hartman Corp.
HN	Havana Electric Railway Co.
GH	Helme Co. (G. W.).
GH Pr	Helme Co. (G. W.) Pfd.
HSY	Hershey Chocolate Corp.
HV	Hocking Valley Ry.
HOO	Hoe (R.) & Co.
HLL	Hollander & Son (A.), Inc.
HM	Homestake Mining.
HOU	Household Products, Inc.
HO	Houston Oil Co.
HW	Howe Sound Co.
HX	Hudson & Manhattan R. R.
HMT	Hudson Motor Car Co.
H	Hupp Motor Car Corp.

I

IL	Illinois Central R. R.
IL.LL	Illinois Cent. R. R. Leased Lines.
IPX	Independent Oil & Gas Co.
IMY	Indian Motocycle Co.

IMY Pr	Indian Motocycle Co., Pfd.
IRR	Indian Refining Co.
IR	Ingersoll-Rand Co.
IR Pr	Ingersoll-Rand Co., Pfd.
ILN	Inland Steel Company.
INS	Inspiration Cons. Cop. Co.
IRT	Interboro Rapid Transit Co.
IRU	Intercontinental Rubber Co.
IGL	International Agr. Corp.
IMN	Internatl. Business Mach. Corp.
ICM	International Cement Corp.
IN	International Comb. Eng. Corp.
HR	International Harvester Co.
ILM	International Match Corp.
MAR	Int. Mercantile Marine Co.
N	International Nickel Co.
IP	Internat. Paper Co. (Com.).
IP Pr	Internat. Paper Co. (6% Pfd.).
IP Pr	Internat. Paper Co. (7% Pfd.).
IRC	Inter. Rys. of Cen. Amer.
IRC Pr	Inter. Rys. of Cen. Amer., Pfd.
ILS	International Salt Co.
INR	International Silver Co.
INR Pr	International Silver Co. Pfd.
ITT	International Tel. & Tel. Corp.
IRY	Intertype Corporation.
IA	Iowa Central Ry.
IRO	Iron Products Corp.
ICR	Island Creek Coal
ICR Pr	Island Creek Coal Co., Pfd.

J

JW	Jewel Tea Co.
JMP	Johns-Manville Corp.

JLO	Joliet & Chicago R. R.
JOT	Jones Bros. Tea Co.
JL Pr	Jones & Laughlin Steel, Pfd.
JJ	Jordan Motor Car Co.

K

KLT	Kansas City Power & Light Co.
KSU	Kansas City Southern Ry.
JKS	Kayser & Co. (Julius).
KLO	Keith-Albee-Orpheum Corp.
KK	Kelly-Springfield Tire Co.
KW	Kelsey-Hayes Wheel Corp.
KW Pr	Kelsey-Hayes Wheel Corp., Pfd.
KLV	Kelvinator Corp.
KN	Kennecott Copper Corp.
KNX	Kinney, (G. R.) & Co.
KNX Pr	Kinney, (G. R.) & Co., Pfd.
KOR	Kolster Radio Corp.
KKR	Kraft-Phenix Cheese Co.
KG	Kresge Co. (The S. S.).
KG Pr	Kresge Co. (The S. S.) Pfd.
KDS	Kresge Department Stores.
KS	Kress & Co. (S. H.).
KR	Kroger Gro. & Baking Co. (The).
BKU	Kuppenheimer (B.) & Co.

L

LG	Laclede Gas Light Co. of St. Louis.
LG Pr	Laclede Gas Light Co. of St. L., Pfd.
LGO	Lago Oil & Transport Corp.
LAM	Lambert Company (The).
LR	Lee Rubber & Tire Corp.

LPT	Lehigh Portland Cement Co.
LV	Lehigh Valley R. R.
LNP	Lehn & Fink Products Co.
LSV	Life Savers, Inc.
LM	Liggett & Myers Tobacco.
LMB	Liggett & Myers, "B" Stock.
LMW	Lima Loco. Works.
LQT	Liquid Carbonic Corp. (The).
LW	Loew's Incorporated.
LF	Loft Incorporated.
LQ	Long-Bell Lumber Corp.
LO	Loose-Wiles Biscuit Co.
LO Pr	Loose-Wiles Biscuit Co., Pfd.
LOR	Lorillard Co. (P.).
LOR Pr	Lorillard Co. (P.), Pfd.
LL	Louisiana Oil Refining Corp.
LL Pr	Louisiana Oil Rfg. Corp., Pfd.
LN	Louisville & Nashville.
LOU	Louisville Gas & Electric Co.
LMS	Ludlum Steel.

M

MAF	MacAndrews & Forbes Co.
MAF Pr	MacAndrews & Forbes Co., Pfd.
MQ	Mack Trucks, Inc.
MK	Mackay Companies.
MZ	Macy (R. H.) & Co., Inc.
MQS	Madison Square Garden Corp.
MMX	Magma Copper Co.
MAH	Mahoning Coal Railroad Co.
HK	Mallinson (H. R.) & Co.
HK Pr	Mallinson (H. R.) & Co., Pfd.
MNU	Manati Sugar Co.

MB	Mandel Brothers, Inc.
MSY	Manhattan Electrical Supply Co.
MAN	Manhattan Railway.
MAN	Manhattan Railway, Gtd. (Old).
MT	Manhattan Shirt Co.
MT Pr	Manhattan Shirt Co., Pfd.
MAB	Maracaibo Oil Exploration Co.
MRR	Market Street Railway.
MO	Marland Oil.
MR	Marlin-Rockwell Corp.
MRT	Martin-Parry Corp.
AKL	Mathieson Alkali Works.
AKL Pr	Mathieson Alkali Works, Pfd.
MA	May Department Stores Co.
MYG	Maytag Co. (The).
MW	McCall Corporation.
MRY	McCrory Stores Corp.
MRY Pr	McCrory Stores Corp., Pfd.
MRY	McCrory Stores Corp. "B."
MTY	McIntyre Porcupine Mines.
MV	McKeesport Tin Plate Co. (The).
MGX	Mengel Company (The).
MGL	Metro-Goldwyn Pictures.
MNO	Mexican Northern Ry.
MN	Mexican Petroleum Co., Ltd.
MSX	Mexican Seaboard Oil.
MMP	Miami Copper Co.
MC	Michigan Central R. R.
MPZ	Mid-Continent Petroleum Corp.
MSO	Middle States Oil.
MPO	Midland Steel Products Co.
MRC	Miller Rubber Co. (The).
MY Pr	Milwaukee El. Ry. & Li. Co., Pfd.
MS	Minneapolis & St. Louis R. R.

MSM	Minn., St. P. & S. S. Marie Ry.
MSM LL	Minn., St. P. & S. S. M. L. Lines.
MSM Pr	Minn., St. P. & S. S. Ry., Pfd.
KT	Missouri-Kansas-Texas.
MOP	Missouri Pacific R. R.
M & B Pr	Mobile & Birmingham R. R., Pfd.
MNT	Montana Power Co.
M	Montgomery Ward & Co.
MOO	Moon Motor Car Co.
MOS	Morris & Co., Ltd., Inc. (Philip.).
ME	Morris & Essex R. R.
MOR	Mother Lode Coalition Mines Co.
MPX	Motion Picture Capital Corp.
MMR	Moto Meter Company, Inc. (The).
MPS	Motor Products Corp.
MRW	Motor Wheel Corporation.
MNS	Mullins Manufacturing Corp.
MNS Pr	Mullins Mfg. Corp., Pfd.
MUN	Munsingwear, Inc.
MUY	Murray Corporation of America.

N

NSS	Nash Motor Co.
CHA	Nashville, Chattanooga & St. L.
NCM	National Acme Co.
NBH	National Bellas Hess Co., Inc.
BI	National Biscuit.
NCR	National Cash Register Co. (The).
NPT	National Dairy Products Corp.
NX	National Department Stores.
NAD	National Distillers Prod. Corp.
EGK	National Enameling & Stamping.
LT	National Lead Co.

NPL	National Power & Light Co.
NRC	National Radiator Corp.
MX	National Rys. of Mexico.
NSC	National Supply Co.
NSC Pr	National Supply Co., Pfd.
NSU	National Surety Co.
NTY	National Tea Company.
NV	Nevada Consolidated Copper.
NOX	New Orleans, Texas & Mexico Ry.
HAR	N. Y. & Harlem.
AB	New York Air Brake Co.
CN	N. Y. Central.
NKP	N. Y., Chicago & St. Louis.
DK	New York Dock Co.
NL	N. Y., Lackawanna & Western.
V	N. Y., N. H. & Hartford R. R. Co.
OW	N. Y., Ontario & Western.
NRY	N. Y. Railways Corp.
NST	N. Y. State Railways.
NSM	N. Y. Steam Corporation.
NFK	Norfolk & Western Ry.
NS	Norfolk Southern R. R.
NA	North American Co.
NAE	North American Edison Co.
NNX	Northern Central Ry.
NP	Northern Pacific.
NWT	Northwestern Telegraph.
NRT	Norwalk Tire & Rub. Co.
NRT Pr	Norwalk Tire & Rub. Co., Pfd.
NNY	Nunnally Company.

O

OWY	Oil Well Supply Company.
OWY Pr	Oil Well Supply Company, Pfd.

BUZ	Omnibus Corporation (The).
OPS	Oppenheim, Collins & Co., Inc.
OPX	Orpheum Circuit.
OT	Otis Elevator Co.
OT Pr	Otis Elevator Co., Pfd.
OST	Otis Steel Co.
OTU	Outlet Company (The).
OTU Pr	Outlet Co. (The), Pfd.
OB	Owens Bottle Co.

P

PX	Pacific Coast Co.
PX Pr	Pacific Coast Co. (1st Pfd.).
PX Pr	Pacific Coast Co. (2nd Pfd.).
PCG	Pacific Gas & Elec. Co.
PLT	Pacific Lighting Corp.
PFS	Pacific Mills.
PY	Pacific Oil.
PAC	Pacific Tel. & Tel. Co.
PAK	Packard Motor Car Co.
PP	Pan-American Pet. & Trans. Co.
PPB	Pan-Am. Pet. & Trans., Class B.
PPW	Pan-Amer. Western Pet. Co.
PDF	Panhandle Prod. & Refining Co.
FP	Paramount Famous Lasky Corp.
PKT	Park & Tilford.
PUC	Park Utah Cons. Mines Co.
PTH	Pathe Exchange, Inc.
PAE	Patino Mines & Enterprises.
PSS	Peerless Motor Car Corp.
PFK	Penick & Ford, Ltd., Inc.
PFK Pr	Penick & Ford, Ltd., Inc., Pfd.
PVC	Pennsylvania Coal & Coke Corp.

PXC	Penna-Dixie Cement Corp.
PA	Pennsylvania R. R.
PO	Peoples Gas Lt. & Coke Co.
PE	Peoria & Eastern Ry.
PQ	Pere Marquette R. R.
PQR	Pere Marquette, Prior Pfd.
PK	Pettibone-Mulliken Co.
PH	Philadelphia Co.
PH Pr	Philadelphia Co. (5% Pfd.).
PH Pr	Philadelphia Co. (6% Pfd.).
PV	Philadelphia Rapid Transit.
PRC	Phila. & Reading Coal & Iron Corp.
PJ	Phillips-Jones Corp.
PJ Pr	Phillips-Jones Corp., Pfd.
P	Phillips Petroleum Co.
PXY	Phoenix Hosiery Co.
PXY Pr	Phoenix Hosiery Co., Pfd.
PZ	Pierce Arrow Motor Car Co.
POL	Pierce Oil Corp.
PPX	Pierce Petroleum Corp.
PSY	Pillsbury Flour Mills, Inc.
PW	Pittsburgh & West Va. Ry.
PT	Pitts., Cin., Chic. & St. L. R. R.
PC	Pittsburgh Coal Co. (of Penna.).
FW	Pitts., Ft. Wayne & Chicago.
PMY	Pitts., McKeesport & Yough.
PG	Pittsburgh Steel Co.
PPT	Pittsburgh Term. Coal Corp.
PPT Pr	Pittsburgh Term. Coal Corp., Pfd.
PYA Pr	Pitts., Youngstown & Ash., Pfd.
PRT	Porto Rican-Amer. Tobacco Co.
PST	Postal Telegraph & Cable Corp.
PS	Postum Co., Inc.
PSL	Pressed Steel Car Co.

PFN	Producers & Refiners Corp.
PFN Pr	Producers & Refiners Corp., Pfd.
PYY	Pro-phy-lac-tic Brush Co.
PUB	Public Service Corp. of N. J.
PEG	Public Service Electric & Gas Co.
PU	Pullman Co.
PU	Pullman Inc. (New).
PQS	Punta Alegre Sugar Co.
PUY	Pure Oil Co.
PUY Pr	Pure Oil Co., Pfd.
PTY	Purity Bakeries Corp.

R

R	Radio Corporation of America.
RSY	R. R. Securs. Co., Ill. Cent. Stock.
RDM	Rand Mines.
RDG	Reading Co.
RSH	Real Silk Hosiery Mills, Inc.
RSH Pr	Real Silk Hosiery Mills, Inc. Pfd.
RIS	Reis & Co. (Robert).
RR	Remington Rand, Inc.
REM Pr	Remington Typewriter Co., Pfd.
RNS	Rensselaer & Saratoga R. R.
RY	Reo Motor Car Co.
RBC	Republic Iron & Steel.
RSA	Reynolds Spring Co.
RJR	Reynolds (R. J.) Tobacco Co.
RJR	Reynolds (R. J.) Tob. Co. ("B").
RO	Richfield Oil Co. of California.
ROS	Rossia Insur. Co. of America.
RD	Royal Dutch, N. Y. Shares.
RV	Rutland R. R.

S

JO	St. Joseph Lead Co.
FN	St. Louis–San Francisco R. R.
SS	St. Louis & Southwestern R. R.
SA	Savage Arms.
SHO	Schulte Retail Stores Corp.
SHO Pr	Schulte Retail Stores Corp., Pfd.
SB	Seaboard Air Line.
SVE	Seagrave Corporation (The).
S	Sears, Roebuck & Co.
SEN	Seneca Copper Mining Co.
FHK	Shattuck Co. (Frank G.).
SH	Shell Transp. & Trad. Co., Ltd.
SUX	Shell Union Oil Corp.
SHU	Shubert Theatre Corp.
SIM	Simmons Company.
SV	Simms Petroleum Co.
SC	Sinclair Consol. Oil Corp.
SAV	Sixth Ave. R. R.
SYE	Skelly Oil Co.
SLS	Sloss Sheffield Steel & Iron.
SNR	Snider Packing Corp.
SCE	Southern California Edison Co.
SD	Southern Dairies, Inc.
SX	Southern Pacific.
SZ	Southern Railway Co.
SRM	Southern Ry. (Mobile & O. Ctfs.).
PSU	South Porto Rico Sugar.
PSU Pr	South Porto Rico Sugar, Pfd.
SDG Pr	Spalding (A. G.) & Bros., Pfd.
SCH	Spang, Chalfant & Co., Inc.
SST	Spear & Company.
SSY	Spicer Mfg. Corp.

SW	Standard Com. Tobacco Co.
SG	Standard Gas & Electric Co.
SM	Standard Milling.
SM Pr	Standard Milling, Pfd.
SCD	Standard Oil Co. of California.
J	Standard Oil Co. of New Jersey.
NY	Standard Oil Co. of N. Y.
SGL	Standard Plate Glass Co.
SGL Pr	Standard Plate Glass Co., Pfd.
STY	Standard Sanitary Mfg. Co.
STA	Stanley Company of America.
STX	Stewart-Warner Speedometer.
STB	Stromberg Carburetor Co.
STU	Studebaker Corp.
STU Pr	Studebaker Corp., Pfd.
SUB	Submarine Boat Corp.
SUN	Sun Oil Company.
SI	Superior Oil.
SSU	Superior Steel.
SWA	Sweets Co. of America, Inc.
SYZ	Symington Company, (The).

T

TZ	Telautograph Corporation.
TCC	Tennessee Copper & Chem. Corp.
T	Texas & Pacific Ry.
TX	Texas Corp. (The).
TG	Texas Gulf Sulphur Co.
TXX	Texas Pacific Coal & Oil Co.
TXL	Texas Pacific Land Trust (New).
TXL	Texas Pacific Land Trust (Old).
TCH	Thatcher Manufacturing Co.
TAV	Third Ave. Ry.

THM	Thompson (John R.) Co.
TV	Tide Water Oil Co.
TV	Tide Water Asso. Oil Co. (New).
TKR	Timken Roller Bearing Co.
TB	Tobacco Products Corp.
TBS	Tobacco Prod. Corp. (Div. Ctfs.).
TP	Toledo, Peoria & Western R. R.
TD	Toledo Railways & Light Co.
TCN	Transcontinental Oil Co.
TU	Transue & Williams Stl. Frg. Corp.
TCO	Trico Products Corp.
TW	Twin City Rap. Tr. Co.
TW Pr	Twin City Rap. Tr. Co., Pfd.

U

UNX	Underwood Elliot Fisher Co.
UNX Pr	Underwood Elliot Fisher, Pfd.
BP	Union Bag & Paper Corp.
UNC	Union Carbide & Carbon Corp.
UCL	Union Oil of California.
U	Union Pacific.
U Pr	Union Pacific, Pfd.
UTX	Union Tank Car.
UBC	United Biscuit Co. of America.
UC	United Cigar Stores.
UDY	United Dyewood.
UF	United Fruit Co.
PB	United Paperboard.
CJ	U. S. Cast Iron Pipe & Foundry.
UM	U. S. Distributing Corp.
USX	U. S. Express Co.
HMY	U. S. Hoffman Machinery Corp.
UD	U. S. Industrial Alcohol Co.

UD Pr	U. S. Industrial Alcohol Co., Pfd.
UX	U. S. Leather Co. (The).
UZ	U. S. Realty & Improvement.
RU	U. S. Rubber Co.
UV	U. S. Smelting, Refining & Min.
X	U. S. Steel.
X Pr	U. S. Steel, Pfd.
UB	United States Tobacco Co.
UB Pr	U. S. Tobacco Co., Pfd.
UVV	Universal Leaf Tobacco Co., Inc.
UVV Pr	Univer. Leaf Tob. Co., Inc., Pfd.
UVP Pr	Universal Pictures Co., Inc., Pfd.
UVX	Universal Pipe & Radiator Co.
UE	Utah Copper.
UL	Utilities Power & Light Corp.

V

VA	Vanadium Corp. of Amer.
VRT	Van Raalte Co.
VRT Pr	Van Raalte Co., Pfd.
VIK	Vick Chemical Co.
VKS	Vicksburg, Shreve. & Pac. Ry. Co.
VKK	Victor Talking Machine Co.
VC	Virginia-Carolina Chemical.
VE	Virginia Electric & Power.
VK	Virginia Iron, Coal & Coke.
VK Pr	Virginia Iron, Coal & Coke, Pfd.
VV	Vivaudou (V.), Inc.
VX	Vulcan Detinning Co.

W

WA	Wabash Ry.
WXY	Waldorf System, Inc.

WAG	Walgreen Company.
WAL	Walworth Company.
WD	Ward Baking Corp. (Class A).
WD	Ward Baking Corp. (Class B).
WD Pr	Ward Baking Corp., 7% Pfd.
WBP	Warner Bros. Pictures Co.
QW	Warner-Quinlan Co.
WAR	Warren Brothers Co.
WAR Pr	Warren Brothers Co., Pfd.
WAF	Warren Foundry & Pipe Corp.
WBC	Weber & Heilbroner.
WF	Wells Fargo & Co.
WEP	West Penn Electric Co.
WPP Pr	West Penn Power Co., Pfd.
WYY	Western Dairy Products Co.
WM	Western Maryland Ry.
WR	Western Pacific R. R. Corp.
W	Western Union Telegraph Co.
WKM	Westinghouse Air Bk. Co. (The).
WX	Westinghouse Elec. & Mfg. Co.
WX Pr	Westinghouse El. & Mfg. Co., Pfd.
WZ	Weston Elec. Instrument Corp.
WL	Wheeling & Lake Erie Ry.
WEO	White Eagle Oil & Refining Co.
WHI	White Motor Co.
WHR	White Rock Mineral Springs Co.
WSW	White Sewing Machine Corp.
OV	Willys Overland.
WIL	Wilson & Co., Inc.
WC	Wisconsin Central Ry.
Z	Woolworth & Co. (F. W.).
WPU	Worthington Pump & Mach. Corp.
WAC	Wright Aeronautical Corp.
WWY	Wrigley, Jr. & Co. (Wm.).

Y

YA	Yale & Towne Mfg. Co. (The).
YC	Yellow Truck & Coach Mfg. Co.
YB	Youngstown Sheet & Tube Co.

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No-par-value stock: No stated nominal value

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